TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE, ET AL., PETITIONERS,

vs.

THYS COMPANY.

ON WRIT OF CERTIORARI TO THE SUPREME COURT OF WASHINGTON

PETITION FOR CERTIORARI FILED DECEMBER 26, 1963

CERTIORARI GRANTED FEBRUARY 17, 1964

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1963

No. 707

WALTER C. BRULOTTE, ET AL., PETITIONERS,

vs.

THYS COMPANY.

ON WRIT OF CERTIORARI TO THE SUPREME COURT OF WASHINGTON

INDEX

RECORD PRESS, PRINTERS, NEW YORK, N. Y., MARCH 31, 1964

[fol. 2] [File endorsement omitted]

IN THE
SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

COMPLAINT—Filed June 12, 1959

Comes now the plaintiff above named, and for cause of action against the defendants herein, complains and alleges as follows:

1.

That at all times herein mentioned, plaintiff herein, Thys Company, was, and now is, a corporation duly organized and existing pursuant to the Laws of the State of California, and that it has paid all license fees due to the State of Washington.

2.

That at all times herein mentioned, the defendants, Walter C. Brulotte and Jane Doe Brulotte, whose true Christian name is to plaintiff unknown, were, and now are, husband and wife, and as such constitute a marital community, and reside in Yakima County, Washington.

3.

That on or about the 10th day of August, 1948, for valuable consideration, the plaintiff and the defendant Walter C. Brulotte, for and on behalf of said marital community, entered into a written agreement whereby the plaintiff sold and delivered to said defendants and the defendants pur-

chased one certain Thys portable hop picking machine No. 44-L-59, and the plaintiff, as the licensee and holder of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1958 hop harvest at the [fol. 3] rate of $3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum royalty of not less than $500.00 plus tax per year. A copy of said agreement is in the possession of said defendants, and the same is incorporated by reference herein. The same provides in part as follows:

"8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33⅓) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33⅓) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious break-

down or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party . . .

"9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty property payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s) . . .

"11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect . . .

"23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, or Sacramento County, California, and in addition to

taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action."

[fol. 4] 4.

Pursuant to the terms and provisions of said agreement, the plaintiff delivered said hop picking machine to said defendants; and the plaintiff has duly done and performed all of the terms and conditions of said agreement by it to be performed.

5.

Plaintiff has duly made demand upon said defendants for statements showing the quantity of dried hops picked, harvested and processed with said machine or by the defendants during each of said seasons during said period, and showing the amount of royalties payable by the defendants to the plaintiff under said agreement, and the plaintiff has further duly made demand upon the defendants for the payment of the said royalties payable by the defendants to the plaintiff thereunder. The same were payable under said agreement at the rate hereinabove stated on or before October 15th, of each of said seasons. Notwithstanding said demands of the plaintiff, the said defendants have failed and refused to furnish to the plaintiff such statement or information, and said defendants have failed and refused to pay to the plaintiff said royalties or any part thereof, and that no part thereof has been paid.

6.

That each year during said period, the defendants have harvested large quantities of hops with said machine. The plaintiff has no knowledge or information as to the precise quantity of hops so harvested. Defendants have made no royalty payments to the plaintiff for 1953 or any subsequent year. Under state law as construed by the Supreme Court, there is also payable by the defendants a state sales tax in the sum of three and one-third per cent of said royalties. Under said agreement, there is a minimum annual royalty payable in the sum of at least $516.67, including said state sales tax.

7.

The plaintiff has no plain, speedy or adequate remedy at law, and an accounting is necessary in order to ascertain [fol. 5] and determine the amount of royalties payable by the defendants to the plaintiff under said agreement.

8.

Said agreement provides that in any action commenced by the plaintiff herein to enforce the provisions of said agreement, the plaintiff shall be entitled to recover a reasonable sum as attorney's fees in such action, in addition to taxable costs as provided by law. That the sum of $1500.00 is a reasonable sum to be allowed to the plaintiff as attorneys' fees herein.

Wherefore, plaintiff prays that it may have and recover judgment and decree against the defendants herein, requiring the defendants render a full, true and complete accounting and furnish full information and statements as to the quantities of dried hops picked, harvested and processed by the defendants and by the use of said hop picking machine during the 1953 hop harvest season and all subsequent years, and as to the amount of royalties payable to the plaintiff under said agreement for each of said seasons; and that the plaintiff have and recover judgment against the defendants herein in the sum of $3,100.02, or for such greater amount as may be shown by said accounting to be due and owing, together with interest thereon at six per cent per annum from October 15th of each of said years, respectively, until paid, and together with plaintiff's reasonable attorney's fees in the sum of $1,500.00, and plaintiff's costs and disbursements herein to be taxed; and plaintiff prays for such other and further relief as to this court may seem just and equitable in the premises.

Cheney & Hutcheson, Attorneys for Plaintiff.

Duly sworn to by Elwood Hutcheson, jurat omitted in printing.

[fol. 7] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

ANSWER—Filed January 8, 1960

Come now the defendants and in answer to plaintiff's Complaint admit, deny and allege as follows:

1.

In answer to paragraph 1 of plaintiff's Complaint, defendants are without knowledge or information sufficient to form a belief as to the truth of the averment therein contained, and, therefore, deny the same.

2.

In answer to paragraph 2 of plaintiff's Complaint, defendants admit the same.

3.

In answer to paragraph 3 of plaintiff's Complaint, defendants admit the same, except defendants specifically deny that the said promises to pay annual royalty, and to render statements to plaintiff were made for a valuable consideration.

4.

In answer to paragraph 4 of plaintiff's Complaint, defendants deny the same.

5.

In answer to paragraph 5 of plaintiff's Complaint, defendants admit the same except defendants deny that any payments whatsoever were or have been payable under said agreement.

[fol. 8] 6.

In answer to paragraph 6 of plaintiff's Complaint, defendants deny that hops have been harvested each year with the said machine during 1953 or at any time since. Defendants are without knowledge or information sufficient to form a belief as to the truth of the averment that plaintiff has no knowledge or information as to the precise quantity of hops harvested by defendants with said machine, and affirmatively allege that no hops whatsoever have been harvested with said machine during 1953 or at any time since. Defendants admit that no royalty payments have been made by defendants to plaintiff during 1953 or at any time since. Defendants deny that any amount whatsoever is payable as Washington State sales tax or otherwise by defendants to plaintiff.

7.

In answer to paragraph 7 of plaintiff's Complaint, defendants deny the same.

8.

In answer to paragraph 8 of plaintiff's Complaint, defendants admit the first sentence therein set forth and deny the second sentence therein set forth.

Pleading further, and by way of a first affirmative defense, defendants allege:

1.

This action is barred by the statute of limitations.

Pleading further, and by way of a second affirmative defense, defendants allege:

1.

On or about the 9th day of August, 1948, plaintiff and defendants entered into a contract in writing, a true and correct copy of which is attached hereto, designated defendants' Exhibit A, and incorporated herein by reference thereto as if fully set forth.

[fol. 9] 2.

Said contract was terminated in accordance with its terms on or about October 15, 1953, by reason of defendants' failure to comply with the terms of said contract.

3.

Any action on said contract is now barred by the statute of limitations.

Pleading further and by way of a third affirmative defense, defendants allege:

1.

On or about the 9th day of August, 1948, plaintiff and defendants entered into a contract in writing, a true and correct copy of which is attached hereto, designated defendants' Exhibit A, and incorporated herein by reference thereto as if fully set forth.

2.

Several of the patents set forth in said contract have been adjudicated and held in courts of competent jurisdiction to be invalid and of no legal effect. The remaining patents, which have not been held and adjudicated invalid, are commercially worthless as a practical matter.

3.

By reason of the determination of the invalidity of said patents as aforesaid, defendants have been evicted in the enjoyment of their privileged use of said hop-picking machine.

Wherefore, having fully answered the Complaint of plaintiff, defendants pray that the same be dismissed with prejudice, that plaintiff take nothing thereby, and that defen- [fol. 10] dants be allowed their costs and disbursements herein incurred, hereafter to be taxed.

Velikanje & Moore, By Charles C. Countryman, Attorneys for Defendants.

Duly sworn to by Walter C. Brulotte, jurat omitted in printing.

Proof of service (omitted in printing).

[fol. 11] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

REPLY—Filed January 12, 1960

Comes Now the plaintiff above named and for its reply to the answer of the defendants herein, denies each and every affirmative allegation therein contained, except insofar as the same are alleged or admitted in the complaint and the plaintiff's answers to interrogatories heretofore filed by the plaintiff herein.

Wherefore, having fully replied to said answer, plaintiff prays for judgment and decree as prayed for in its complaint herein and plaintiff prays for such other and further relief as may be just and equitable in the premises.

Cheney & Hutcheson, Attorneys for Plaintiff.

Duly sworn to by Elwood Hutcheson, jurat omitted in printing.

[fol. 12] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

COMPLAINT—Filed July 14, 1959

Comes now the plaintiff above named, and for cause of action against the defendants herein, complains and alleges as follows:

1.

That at all times herein mentioned, plaintiff herein, Thys Company, was, and now is, a corporation duly organized and existing pursuant to the Laws of the State of California, and that it has paid all license fees due to the State of Washington.

2.

That at all times herein mentioned, the defendants, Raymond Charvet and Jane Doe Charvet, whose true Christian name is to plaintiff unknown, were, and now are, husband and wife, and as such constitute a marital community, and reside in Yakima County, Washington.

3.

That on or about the 31st day of January, 1951, for valuable consideration, the plaintiff and ~~the defendant~~ Raymond Charvet, for and on behalf of said marital community, entered into a written agreement whereby the plaintiff sold and delivered to said defendants and the defendants pur-

chased one certain Thys portable hop picking machine No. 44-L-132, and the plaintiff, as the licensee and holder of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1960 hop harvest at the rate of $3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum [fol. 13] royalty of not less than $500.00 plus tax per year. A copy of said agreement is in the possession of said defendants, and the same is incorporated by reference herein. The same provides in part as follows:

> "8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33⅓) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33⅓) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious break-

down or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party . . . .

"9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty property payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s) . . .

"11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect . . .

"23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington, or Sacramento County, California, and in addition to taxable costs as provided by law, First Party

shall be entitled to recover a reasonable sum as attorney's fees in such action."

[fol. 14] 4.

Pursuant to the terms and provisions of said agreement, the plaintiff delivered said hop picking machine to said defendants; and the plaintiff has duly done and performed all of the terms and conditions of said agreement by it to be performed.

5.

Plaintiff has duly made demand upon said defendants for statements showing the quantity of dried hops picked, harvested and processed with said machine or by the defendants during each of said seasons during said period, and showing the amount of royalties payable by the defendants to the plaintiff under said agreement, and the plaintiff has further duly made demand upon the defendants for the payment of the said royalties payable by the defendants to the plaintiff thereunder. The same were payable under said agreement at the rate hereinabove stated on or before October 15th, of each of said seasons. Notwithstanding said demands of the plaintiff, the said defendants have failed and refused to furnish to the plaintiff such statement or information, and said defendants have failed and refused to pay to the plaintiff said royalties or any part thereof, and that no part thereof has been paid.

6.

That each year during said period, the defendants have harvested large quantities of hops with said machine. The plaintiff has no knowledge or information as to the precise quantity of hops so harvested. Defendants have made no royalty payments to the plaintiff for 1953 or any subsequent year. Under state law as construed by the Supreme Court, there is also payable by the defendants a state sales tax in the sum of three and one-third per cent of said royalties. Under said agreement, there is a minimum annual royalty payable in the sum of at least $516.67, including said state sales tax.

7.

That plaintiff has no plain, speedy or adequate remedy at law, and an accounting is necessary in order to ascertain [fol. 15] and determine the amount of royalties payable by the defendants to the plaintiff under said agreement.

8.

Said agreement provides that in any action commenced by the plaintiff herein to enforce the provisions of said agreement, the plaintiff shall be entitled to recover a reasonable sum as attorney's fees in such action, in addition to taxable costs as provided by law. That the sum of $1500.00 is a reasonable sum to be allowed to the plaintiff as attorneys' fees herein.

Wherefore, plaintiff prays that it may have and recover judgment and decree against the defendants herein, requiring the defendants render a full, true and complete accounting and furnish full information and statements as to the quantities of dried hops picked, harvested and processed by the defendants and by the use of said hop picking machine during the 1953 hop harvest season and all subsequent years, and as to the amount of royalties payable to the plaintiff under said agreement for each of said seasons; and that the plaintiff have and recover judgment against the defendants herein in the sum of $3,100.02, or for such greater amount as may be shown by said accounting to be due and owing, together with interest thereon at six per cent per annum from October 15th of each of said years, respectively, until paid, and together with plaintiff's reasonable attorney's fees in the sum of $1,500.00, and plaintiff's costs and disbursements herein to be taxed; and plaintiff prays for such other and further relief as to this court may seem just and equitable in the premises.

Cheney & Hutcheson, Attorneys for Plaintiff.

Duly sworn to by Elwood Hutcheson, jurat omitted in printing.

[fol. 17] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

ANSWER—Filed January 8, 1960

Come now the defendants and in answer to the Complaint of plaintiff admit, deny and allege as follows:

1.

In answer to paragraph 1 of plaintiff's Complaint, defendants are without knowledge or information sufficient to form a belief as to the truth of the averment therein contained, and, therefore, deny the same.

2.

In answer to paragraph 2 of plaintiff's Complaint, defendants admit the same.

3.

In answer to paragraph 3 of plaintiff's Complaint, defendants admit the same, except defendants specifically deny that the said promises to pay annual royalty, and to render statements to plaintiff were made for a valuable consideration.

4.

In answer to paragraph 4 of plaintiff's Complaint, defendants deny the same.

5.

In answer to paragraph 5 of plaintiff's Complaint, defendants admit the same except defendants deny that any payments whatsoever were or have been payable under the said agreement.

[fol. 18] 6.

In answer to paragraph 6 of plaintiff's Complaint, defendants deny that hops have been harvested each year with the said machine during 1953 or at any time since. Defendants are without knowledge or information sufficient to form a belief as to the truth of the averment that plaintiff has no knowledge or information as to the precise quantity of hops harvested by defendants with said machine since January 31, 1951, and, therefore, deny the same. Defendants admit that no royalty payment has been made by defendants to plaintiff during 1953 or any subsequent year. Defendants deny that any amount whatsoever is payable as Washington State sales tax or otherwise by defendants to plaintiff.

7.

In answer to paragraph 7 of plaintiff's Complaint, defendants deny the same.

8.

In answer to paragraph 8 of plaintiff's Complaint, defendants admit the first sentence therein set forth and deny the second sentence therein set forth.

Pleading further, and by way of a first affirmative defense, defendants allege:

1.

This action is barred by the statute of limitations.

Pleading further, and by way of a second affirmative defense, defendants allege:

1.

On or about the 31st day of January, 1951, plaintiff and defendants entered into a contract in writing, a true and correct copy of which is attached hereto, designated defendants' Exhibit A, and incorporated herein by reference thereto as if fully set forth.

[fol. 19] 2.

Said contract was terminated in accordance with its terms on or about October 15, 1953, by reason of defendants' failure to comply with the terms of said contract.

3.

Any action on said contract is now barred by the statute of limitations.

Pleading further and by way of a third affirmative defense, defendants allege:

1.

On or about the 31st day of January, 1951, plaintiff and defendants entered into a contract in writing, a true and correct copy of which is attached hereto, designated defendants' Exhibit A, and incorporated herein by reference thereto as if fully set forth.

2.

Several of the patents set forth in said contract have been adjudicated and held in courts of competent jurisdiction to be invalid and of no legal effect. The remaining patents, which have not been held and adjudicated invalid, are commercially worthless as a practical matter.

3.

By reason of the determination of the invalidity of said patents as aforesaid, defendants have been evicted in the enjoyment of their privileged use of said hop-picking machine.

Wherefore, having fully answered the Complaint of plaintiff, defendants pray that the same be dismissed with prejudice, that plaintiff take nothing thereby, and that defen-[fol. 20] dants be allowed their costs and disbursements herein incurred, hereafter to be taxed.

Velikanje & Moore, By Charles C. Countryman, Attorneys for Defendants.

Duly sworn to by Raymond Charvet, jurat omitted in printing.

Proof of service (omitted in printing).

[fol. 21] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

REPLY—Filed January 12, 1960

Comes Now the plaintiff above named and for its reply to the answer of the defendants herein, denies each and every affirmative allegation therein contained, except insofar as the same are alleged or admitted in the complaint and the plaintiff's answers to interrogatories heretofore filed by the plaintiff herein.

Wherefore, having fully replied to said answer, plaintiff prays for judgment and decree as prayed for in its com-

plaint herein and plaintiff prays for such other and further relief as may be just and equitable in the premises.

Cheney & Hutcheson, Attorneys for Plaintiff.

Duly sworn to by Elwood Hutcheson, jurat omitted in printing.

[fol. 22] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

STIPULATION AND ORDER FOR CONSOLIDATION
—Filed February 19, 1960

It Is Hereby Stipulated and Agreed by and between the parties herein by their respective counsel that the two above

entitled causes, involving similar issues of law and fact, shall be consolidated for trial.

Cheney & Hutcheson, Attorneys for Plaintiff.

Velikanje & Moore, Charles C. Countryman, Attorneys for Defendants.

Pursuant to the foregoing stipulation, It Is Hereby Ordered that the two above entitled causes are hereby consolidated for trial.

Done in Open Court this 19th day of February, 1960.

[Signature Illegible], Judge.

Presented by:

Elwood Hutcheson, Of Counsel for Plaintiff.

Approved:

Charles C. Countryman, Of Counsel for Defendants.

[fol. 23] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

NOTICE OF TRIAL AMENDMENT—Filed May 26, 1960

To: Thys Company, a corporation,
and

To: Elwood Hutcheson, Cheney & Hutcheson, its attorneys

You, and Each of You, take notice that at the trial of this cause defendants will move to amend their Answer to correct the Answer of Walter C. Brulotte and Jane Doe Brulotte, his wife, to paragraph 6 of plaintiff's Complaint against said Walter C. Brulotte and Jane Doe Brulotte, his wife, and to set forth additional defenses as follows, to-wit:

In answer to paragraph 6 of plaintiff's Complaint, defendants Walter C. Brulotte and Jane Doe Brulotte, his wife, admit that hops have been harvested with the said

machine from the period of 1953 through 1958. No hops have been harvested with said machine since the harvest of 1958. Defendants admit that no royalty payments have been made by defendants to plaintiff during 1953, or at any time since. Defendants deny that any amount whatsoever is payable as Washington State sales tax or otherwise by defendants to plaintiff.

Defendants Walter C. Brulotte and Jane Doe Brulotte, [fol. 24] his wife, and defendants Raymond Charvet and Jane Doe Charvet, his wife, plead further as follows:

Pleading further and by way of a fourth affirmative defense, defendants allege:

1.

At the time of entering into the contracts between the plaintiff and defendants herein, plaintiff represented to defendants that there were twelve (12) patents incorporated into the portable hop-picking machine and that in order to use said hop-picking machines after purchasing them it would be necessary for these defendants to obtain a license to use said hop-picking machines. In truth and in fact, only seven (7) out of the said twelve (12) patents were incorporated into the said hop-picking machines, and plaintiff at all times knew that such was the situation. Said plaintiff further represented to these defendants that the use of said machine was protected by his patents until the expiration of the term of the proposed contract between the parties hereto, whereas in truth and in fact that latest of the said patents actually incorporated into the said hop-picking machines expired in 1957. Such fact was known by plaintiff. All of said representations were made with the intention of plaintiff to induce defendants to enter into the said contracts for a consideration in excess of a reasonable consideration for the use of patents actually incorporated into the said machine, and for a term in excess of the patent monopoly on said patents plaintiff believed itself to be entitled to at that time. These defendants did in fact rely upon the said false representations, there being no contrary information available or readily available. These defendants have subsequently learned that the representations

made by plaintiff were in fact untrue. Said representations were further made by plaintiff to extend its patent monopoly beyond the scope of the privilege awarded to it under the patent laws of the United States and contrary to the anti-trust laws of the United States.

[fol. 25] Dated this 23d day of May, 1960.

Velikanje & Moore, By E. F. Velikanje, Attorneys for Defendants.

Proof of service (omitted in printing).

[fol. 26] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

AMENDED NOTICE OF TRIAL AMENDMENT —Filed June 22, 1960

To: Thys Company, a corporation, and

To: Elwood Hutcheson, of Cheney & Hutcheson, Its Attorneys:

You, and each of you, take notice that at the trial of this cause defendants will move to amend their answer to correct the Answer of Walter C. Brulotte and Jane Doe Brulotte, his wife, to paragraph 6 of plaintiff's complaint against said Walter C. Brulotte and Jane Doe Brulotte, his wife, and to set forth additional defenses as follows, to-wit:

In answer to paragraph 6 of plaintiff's complaint, defendants Walter C. Brulotte and Jane Doe Brulotte, his wife, admit that hops have been harvested with the said machine from the period of 1953 through 1958. No hops have been harvested with said machine since the harvest of 1958. Defendants admit that no royalty payments have been made by defendants to plaintiff during 1953, or at any time since. Defendants deny that any amount whatsoever is payable as Washington State Sales Tax or otherwise by defendants to plaintiff.

Defendants Walter C. Brulotte and Jane Doe Brulotte, [fol. 27] his wife, and defendants Raymond Charvet and Jane Doe Charvet, his wife, plead further as follows:

Pleading Further and by way of a fourth affirmative defense, defendants allege:

1.

At the time of entering into the contracts between the plaintiff and defendants herein, plaintiff represented to defendants that there were twelve (12) patents incorporated into the portable hop-picking machines and in order to use said hop-picking machines after purchasing them it would be necessary for these defendants to obtain a license to use said hop-picking machines. In truth and in fact, only seven (7) out of the said twelve (12) patents were incorporated into the said hop-picking machines, and plaintiff at all times knew that such was the situation. Said plaintiff further represented to these defendants that the use of said machines was protected by his patents until the expiration of the term of the proposed contract between the parties hereto, whereas in truth and in fact the latest of said patents actually incorporated into the said hop-picking machines expired in 1957. Such fact was known by plaintiff. All of said representations were made with the intention of plaintiff to induce defendants to enter into the said contracts for a consideration in excess of a reasonable consideration for the use of patents actually incorporated into the said machine, and for a term in excess of the patent monopoly on said patents plaintiff believed itself to be

entitled to at that time. These defendants, with the right to do so, did in fact rely upon the said false representations, there being no contrary information available or readily available. These defendants subsequently learned that the representations made by plaintiff were in fact untrue. Said representations were further made by plaintiff to extend its patent monopoly beyond the scope of the [fol. 28] privilege awarded to it under the patent laws of the United States and contrary to the anti-trust laws of the United States. That defendants have no liability to plaintiff under the alleged contracts by reason of the fraudulent representations and actions of plaintiff.

Pleading Further and by way of a fifth affirmative defense, defendants allege:

1.

That under the alleged contracts, plaintiff attempted to restrict the use of the hop-picking machines involved, after sale of the machines. That such attempt is against public policy, unlawful and renders said alleged contracts void and unenforcible.

Pleading Further and by way of a sixth affirmative defense, defendants allege:

1.

The contracts involved in these actions are part of a concerted scheme and effort by plaintiff to unlawfully extend the patent rights beyond the term granted plaintiff under the patent laws of the United States, thereby creating an unlawful monopoly; that by reason thereof these contracts are void, against public policy and not enforcible.

Dated this 21st day of June, 1960.

Velikanje & Moore, By John S. Moore, Attorneys for defendants.

Proof of service (omitted in printing).

[fol. 36]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and JANE DOE CHARVET, his wife, Defendants.

Statement of Facts—June 23 and 24, 1960

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[fol. 42] WALTER C. BRULOTTE, a defendant herein, called and sworn as a witness by plaintiff, was examined and testified as follows:

Direct examination.

By Mr. Hutcheson:

Q. Your name is Walter C. Brulotte.
A. It is.
Q. And what is your wife's name?
A. Cecelia.

Q. Cecelia?
A. Yes.
Q. What is your occupation, Mr. Brulotte?
A. I didn't get that.
Q. Your occupation is a hop grower, is it?
A. Yes, hop grower and cattle.
Q. Showing you Plaintiff's Identification 1, which your [fol. 43] counsel handed me a moment ago, is that your contract with reference to your hop picking machine?
A. Yes.
Q. That is your signature at the end of it, is it?
A. Yes, it is my signature.

Offers in Evidence

Mr. Hutcheson: We offer it in evidence.
Mr. Countryman: No objection.
The Court: It will be admitted.

(Whereupon, said "Agreement" dated August 10th, 1948, was received in evidence as Plaintiff's Exhibit No. 1, and is made a part of this Statement.)

(Whereupon, letters and receipts were marked and included as Plaintiff's Identification No. 2.)

Q. Do you have the original letters that were referred to in the subpoena that you received from me about the payment of royalties?
A. Do you mean that paper there?
Q. Well, the original letters that you received?
A. I think you have those. I think my attorney has those.

Mr. Hutcheson: I have copies here.
Mr. Countryman: These were just recent letters. We have a copy of the original of this top letter. We could stipulate that these copies could go in because the originals are not immediately available.
Mr. Hutcheson: We offer that in evidence.
The Court: There is no objection, I understand?
Mr. Countryman: No.
The Court: It will be admitted.

(Whereupon, said copies of letters and receipts were received in evidence as Plaintiff's Exhibit No. 2, and are made a part of this statement.)

[fol. 44] The Court: What is Exhibit 2, now?

Mr. Hutcheson: Demand letters for the payment of royalties.

The Court: Yes.

Q. With reference to the registry receipt as part of Exhibit 2 here, you identify that as your wife's handwriting and signature there?

A. It ain't mine. It must be my wife's. It ain't my writing. I would say it was hers.

Q. Yes. Let me see, Mr. Brulotte, since entering into the contract with Thys Company, Exhibit 1, August 10th, 1948, let us see, you paid the royalties from 1948 to and including 1952; I believe that is correct, isn't it?

A. Yes, on that certain machine.

Q. By the way this covers two machines, 44-L-55 and 44-L-59, I believe one of those went to somebody else, didn't it?

A. Yes, one was sold to Herke Brothers.

Q. One was sold to Herke Brothers, the 44-L-55?

A. Yes, I think so.

Q. And so you yourself just purchased one and used one of the machines, is that right?

A. Yes. Yes.

Q. Did you pick hops with your machine in 1953?

A. Yes.

Mr. Countryman: Your Honor, that has been admitted in the amended answer.

The Court: Yes, I believe it is.

Q. I will re-state the question. In your answer, as amended, Mr. Brulotte, you admit that hops had been harvested with the said machine from the period of 1953 [fol. 45] through 1958; in other words, 1953 and each year thereafter to and including 1958, is that correct?

A. Well, I picked—I don't—now, don't get me wrong—some years I hired machines to pick and so they didn't pick my entire crop and I had stationary machines come, but they would pick my crop but not all of it.

Q. You hired stationary machines to pick part of your crop?

A. Yes.

Q. Each year or some years?

A. Oh, some years.

Q. But each of those years 1953 to 1958, both inclusive, you did use that particular Thys portable hop picking machine each of those years and you picked part of your crop with this machine each of those years, is that right?

A. Yes.

Q. What was the quantity of hops that you picked with this machine in 1953?

Mr. Countryman: Your Honor, I object to that because we were not going into this point now the way we talked it over in chambers. It seems to me that the theory of the plaintiff is that he is entitled to an accounting and if he is able to do that the Court will order that he account. I think it is improper to bring it into an accounting, the initial facts and figures at this time that the plaintiff hopes to obtain an accounting. I think it is immaterial in this part of the action.

Mr. Hutcheson: We will abide by whatever the Court's ruling on that would be. This is a case where the accounting feature is not particularly complicated, and where the [fol. 46] figures assuming that the witness has them available, will be rather simple as to the quantity of hops picked in each of those years. From a practical standpoint, it would be convenient to the Court and counsel to cover that matter at this time and have the figures in the record and not have to do it later, but we will do whichever way the Court prefers.

The Court: Well, I think that this is an action for an accounting, and if you are entitled to it the Court will order it, but I don't think this is a proper case to have the accounting in, and so I will sustain the objection.

Mr. Hutcheson: You don't believe that this is the proper time?

The Court: No.

By Mr. Hutcheson:

Q. Mr. Brulotte, have you paid any royalties to Thys Company for any year subsequent to 1952; in other words, 1953 and all subsequent years, have you paid any picking machine royalties to Thys Company?

A. Do you mean from 1952 to 1958?

Q. That's right.

A. No.

The Court: Wait a minute, now. I think—isn't it your testimony that you paid royalties through 1952.

A. No, I didn't pay royalties, that is what I meant.

The Court: Oh, yes.

A. I didn't pay royalties from 1952 to 1958.

The Court: That is what I say. The question and answer included 1952. You paid royalties for 1952?

A. Yes, I did.

The Court: But it is 1953 and later that you did not?

[fol. 47] A. Yes, it is 1953 and later.

The Court: All right.

Mr. Hutcheson: Thank you, Your Honor.

A. Yes, that's right.

Q. Just answer this yes or no: Did you keep records as to the quantity of hops that you picked with this machine each year during the period 1953 through 1958?

A. Yes. I have records.

Mr. Hutcheson: In view of the Court's ruling, I believe that those are all the questions I have at this time, then.

Cross examination.

By Mr. Countryman:

Q. Mr. Brulotte, in answer to the last question, have you segregated your records to show how many hops precisely were harvested by your portable hop picking machine or Thys hop picking machine as contrasted with the various years that you hired some?

A. No, I haven't got no separate records. I haven't kept any separate records. I have the total records. I know about how many but I don't know exactly.

Q. You don't have it down to the pound?

A. No, I don't have it down to the pound. When they take the whole crop they have the records that they keep when John I. Haas takes the crop he takes the whole lot.

Mr. Countryman: That is all.

Redirect examination.

By Mr. Hutcheson:

Q. How did you pay for your hops, referring to the portion that was harvested with the portable machine, didn't [fol. 48] you pay by the pound?

A. Yes.

Q. And didn't you have your records of how much you paid for the harvesting of hops with somebody else's stationary hop picking machine during those years?

A. Yes, I have that. I will have to check for that.

Q. And so bearing in mind your total hop production each year and bearing in mind the quantity of hops harvested with the stationary, the difference would be the hops harvested with your portable hop picking machine, wouldn't it?

A. Yes, I presume so.

Mr. Hutcheson: That is all.
Mr. Countryman: No further questions.

(Witness excused.)

Mr. Hutcheson: Mr. Charvet.

(Whereupon, "Agreement" dated January 31, 1951, was marked as Plaintiff's Identification No. 3.)

RAYMOND CHARVET, a defendant herein, called and sworn as a witness by the plaintiff, was examined and testified as follows:

Direct examination.

By Mr. Hutcheson:

Q. State your name, please.
A. Raymond Charvet.
Q. And your wife's name?
A. Blanche.
Q. What is your occupation, Mr. Charvet?
A. Farming.
[fol. 49] Q. And it has been partially hop growing and partially other kinds of crops, has it?
A. Yes.
Q. Showing you Plaintiff's Identification 3, which your attorney handed me a few moments ago, would you just look that over and tell me whether that is your copy of the contract on the Thys hop picking machine?
A. Yes, it is.
Q. That is your signature, is it, at the end?
A. Yes.

OFFERS IN EVIDENCE

Mr. Hutcheson: We offer it in evidence.
Mr. Countryman: No objection.
The Court: It will be admitted.

(Whereupon, said contract dated January 31st, 1951, was received in evidence as Plaintiff's Exhibit No. 3, and is made a part of this Statement.)

Q. What years since you acquired your Thys portable hop picking machine have you produced hops, Mr. Charvet?
A. '48, '49, '50, '51 and '52 and '58 and '59.

Q. In between those two years or those two periods did you completely remove your hopyard, that is, plow out the hops?
A. Yes.
Q. When did you do that?
A. The Fall of '52.

The Court: I didn't get those years, counsel, again, when was that?

Q. Let me see, you produced hops, just to abbreviate it, in 1948 to and including 1952, is that right?
A. Yes.
[fol. 50] Q. And also in 1958 and 1959, is that right?
A. Yes.

The Court: Thank you.

Q. You removed the hopyard in 1952 after the 1952 harvest, is that right?
A. Yes.
Q. And you replanted the hopyard when?
A. In the Spring of 1958.
Q. Handing you Plaintiff's Identification 4, are those copies of letters that you received?
A. Yes, they appear to be, yes.
Q. Do you have the originals?
A. No.

Mr. Hutcheson: Do you have the originals or do you want to stipulate as to those?
The Court: Those are demand letters?
Mr. Hutcheson: Yes, they are of the same nature, demand letters.
Mr. Countryman: No, I have no objection to these copies.
The Court: They will be admitted.

(Whereupon, said copies of letters and receipt for certified mail and envelope were attached and received in evidence as Plaintiff's Exhibit No. 4, and are made a part of this statement.)

Q. Mr. Charvet, I believe you paid the royalties to and including 1952, is that correct?
A. That's correct.

Q. In other words, up until you removed the hopyard?

A. Yes.

Q. Have you paid any royalties to Thys Company, or [fol. 51] any representative of theirs, for any year subsequent to 1952; in other words, have you paid any for 1953 or any subsequent year?

A. I have not.

Q. Do you have records of your hop production in 1958 and 1959?

A. Yes, I do.

Q. Don't answer this until counsel objects, but what was the quantity of hops which you produced and harvested in the Year 1958?

Mr. Countryman: I object to that, Your Honor, on the same basis as the former question to the other witness.

The Court: Objection sustained.

Mr. Hutcheson: I believe that is all at this time, then.

Cross examination.

By Mr. Countryman:

Q. Mr. Charvet, you actually used your Thys type portable hop picking machine up to the Year 1952, is that right?

A. Yes.

Q. From the time you acquired it in 1951?

A. Yes.

Q. When was the last time that machine was used to harvest your hops?

A. The Fall of 1952 in September.

Q. Pardon?

A. The Fall of 1952.

Q. How have you harvested your hops in the last two years?

A. I have had them harvested through custom work with a stationary machine.

[fol. 52] Mr. Countryman: That is all.

Redirect examination.

By Mr. Hutcheson:

Q. Who did your hop picking in the last two years?
A. My cousin Joe Charvet.

Mr. Hutcheson: That is all.
Mr. Countryman: That is all.

(Witness excused.)

OFFER IN EVIDENCE

Mr. Hutcheson: We offer in evidence Plaintiff's Identification No. 5, the certificate from the Secretary of State.
Mr. Countryman: No objection.
The Court: It will be admitted.

(Whereupon, said certificate was received in evidence as Plaintiff's Exhibit No. 5, and is attached and made a part of this Statement.)

Mr. Hutcheson: In view of the Court's ruling, then, I guess that is all I can present for now, and so the plaintiff rests.

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[fol. 53] EDOUARD THYS, called and sworn as a witness by the defendants, was examined and testified as follows:

Direct examination.

By Mr. Countryman:

Q. Your name is Ed Thys?
A. Yes.
Q. You are President of Thys Corporation, a California corporation, are you not?
A. Yes.
Q. How long have you been connected with the work of harvesting hops by machinery?
A. Do you mean my corporation or myself?
Q. No, yourself, Mr. Thys.
A. Oh, since '35 or '36, I believe.

Q. That was prior to the days of Thys Corporation, was it not?

A. Yes, sir.

Q. When was the corporation actually formed?

A. The business started in 1940 but it was a partnership, Thys and Miller and then it changed to Thys Corporation in—I think in '46, I am not sure.

Q. I see.

A. But it was the same business.

Q. I see. Prior to that time you operated with a gentleman by the name of Mr. Miller?

A. Yes, sir, that is right.

Q. Actually, some of the patents that are listed in Plaintiff's Exhibit 1 and Plaintiff's Exhibit 3 were first obtained by Mr. Miller, were they not?

[fol. 54] A. Well, that is not the same Mr. Miller.

Q. Oh, that is a different Mr. Miller?

A. Yes.

Q. But some of these patents were first obtained by a Mr. Miller?

A. Yes.

Q. What is his name?

A. George E. Miller.

Q. George E. Miller?

A. Yes.

Q. And some of these patents actually listed in the contract were obtained by you, is that so?

A. Yes.

Q. And some of those were obtained by a Mr. Horst, is that so?

A. Yes.

Q. But all of these patents that you yourself obtained as an individual have been assigned to the Thys Corporation?

A. Yes. Originally to the Horst Company and then to the Thys Corporation. I obtained them from the Horst Company.

Q. You obtained them individually from the Horst Company for the corporation?

A. Well, as Thys and Miller.

Q. But eventually they were assigned by Thys and Miller to the Thys Corporation?

A. That's right.

Q. I see.

A. That's right.

The Court: They were first assigned to you personally [fol. 55] and then to the corporation?

A. Yes, to Thys and Miller, which was a partnership.

The Court: And, then, they were assigned to you?

A. Yes.

(Whereupon, document dated April 19, 1938, E. C. Horst, 2,114,712, was marked as Defendants' Identification No. 6.)

The Witness: I beg your pardon, Your Honor, there is a technicality. I don't know if this is of any importance. I recall that the patents were assigned to me personally and the same day I transferred them to Thys and Miller and several days later to Thys Corporation.

By Mr. Countryman:

Q. Mr. Thys, the first patent listed in the contract with both of these parties, as a matter of fact, is Patent No. 2,114,712. That is identified in the contract as the date of issue April 19th, 1938, and the invention as a "Method of Keeping the Picking Fingers of Hop Picking Machines Clean", and this is Identification No. 6 I am handing you, Mr. Thys.

A. If I could have my glasses (glasses handed to witness). Thank you.

Q. Will you please examine that?

A. Yes, uh-huh.

Q. You are familiar with that patent, of course, aren't you?

A. Yes.

Q. That patent, as I understand it, Mr. Thys, and feel free to correct me, if I have any misunderstanding about that patent, that patent covers a method, does it not, of keeping fingers of hop picking machines clean?

A. Yes.

[fol. 56] Q. Actually, it doesn't cover any mechanical device that is actually built into the machine, does it?

A. No.

Q. The method that was obtained by that patent as it was issued, actually is to feed hop vines into a portable machine with coir yarn or some other similar type of string or rope or something of that sort so that as this coir yarn or some similar substance is pulled over the hop fingers the yard through its abrasives or ability to abrase will keep the fingers clean from gummy substance or some other sticky substance that will tend to foul up the fingers; isn't that what that patent was obtained for?

A. Yes, except that you said portable machine. It is the same for a stationary machine, and you said coir twine or similar substance. It is definitely for the coir twine.

* * * * * * *

[fol. 75] By Mr. Countryman:

Q. As I understand the history of your operation, Mr. Thys, you are actually responsible for the construction of the first portable hop picking machine that proved to be the pilot model for all those that were built up here by Lindeman Power Equipment Company, is that right?

A. Yes.

Q. When you first became associated with Mr. Horst and Mr. Miller they had been experimenting with devices for picking hops but it was your idea, was it not, for building hop picking machines was it not?

A. Yes.

Q. And you were responsible for the first portable models?

A. Yes.

Q. And this was down in California, wasn't it?

A. Yes.

[fol. 76] Q. And you later entered into an agreement with the Lindeman Equipment Company here at Yakima, Washington, for them to actually build the hop picking machines up here with the exception of certain parts, isn't that so?

A. Yes.

Q. And you continued in California to build and construct the hop picking fingers they used in the machines?

A. Yes.

Q. The buckets that are used in the machines?

A. Yes.

Q. The vine grasper bar that is used in the machine?

A. Lindeman built those.

Q. You built them for a while and then Lindeman built them, is that right?

A. Yes, I built them for a while.

Q. And actually the brushes you described earlier this morning were shipped up here from California, is that right?

A. Yes.

Q. Now, these parts, the fingers and the buckets and the vine grasper bar were built in your factory in California?

A. Yes.

Q. And they were shipped up here to Lindeman Brothers in Yakima, Washington, and incorporated into new machines that they were building under contract with you?

A. Yes.

Q. Now, when were these machines built by Lindeman Brothers, when were they built, over what period of time?

A. In 1941—from 1941 until 1947.

[fol. 77] Q. I see. So, your pilot model and all had been constructed and used down in California in 1941?

A. Yes.

Q. You had an operating machine that was ready for sale, is that right?

A. Yes, I had built fifteen of them.

Q. Now, then, these parts, the hop picking fingers and the buckets and the parts you were shipping up from California, all of those parts with the exception of the vine grasper bar you have continued to manufacture down in California, is that right?

A. Yes.

Q. And you have shipped them up here to Yakima to Lindeman Brothers or to some other supplier up in the Yakima Valley for sale to the farmer?

A. Yes.

Q. And that is true today, is it not so?

A. Yes.

Q. There has been no one other than you, for instance, that has built the picking fingers that are used and required for use with this machine?

A. No.

Q. Now, then, in these contracts that you have with the defendants, Mr. Thys, and referring to Plaintiff's Exhibit 1, these machines—there are two machines identified in this contract, although it was shown earlier that actually Mr. Brulotte, the other party on this contract only had his during the time we were concerned with in the lawsuit, but these two machines are identified with Serial No. 44-L-55?

[fol. 78] A. Right.

Q. And 44-L-59?

A. That is right.

Q. Now, that "59" is a typographical error, isn't it?

A. No, I don't think so.

Q. You don't think so?

A. No.

Q. What does that serial number mean to you; what does that mean to you?

A. It means the fifty-fifth machine being built and the fifty-ninth.

Q. What is the "44", what does that mean?

A. "44" means the year.

Q. Both of these machines were built in 1944?

A. Yes.

Q. What does the "L" mean?

A. Lindeman.

Q. Built here in Yakima?

A. Yes.

Q. And "55" in one and "59" in the other, that means the number of machines that Lindeman built for you, is that right?

A. Yes.

Q. And so Plaintiff's Exhibit 3, which involves one machine with Ray Charvet, the number 44-L-132 means that it was built in 1944 here in Yakima, machine 132?

A. Yes, that is correct. I think that there has been some fouling up in the year that it was built.

Q. That is what that serial number means?

A. Yes, that is what it means. That is what it indicates, [fol. 79] but I think Lindeman in the numbering fouled up the year. I don't know if it is in these machines or not.

Q. You don't know whether it involved these machines or not?

A. No. But the last number is the serial number of the machine.

*   *   *   *   *   *   *

[fol. 90] By Mr. Countryman:

Q. Mr. Thys, Defendants' Exhibit 10, which we were discussing before the noon recess, being Patent No. 2,139,-029, that being the device that had the revolving drums to pick hops with, with the picking fingers attached to the drums, that was basically a stationary type of machine, was it not?

A. Well, I would say that the application as shown on this patent was basically a stationary machine.

Q. That was a separate machine from your portable, is that right?

A. Well, the basic principles are similar but the drawings show the application of a stationary machine.

Q. Now, as I understand it, Mr. Thys, when you first sold these machines to whoever may have been the original pur-[fol. 91] chasers—I am talking about all of the machines that were actually built up here in Yakima by Lindeman Power Equipment Company, when they were sold, you deemed yourself to be selling the title to the machine, you transferred the title of the machine to the purchaser, didn't you?

A. Yes.

Q. And you never claimed at any time that you have any interest in the machine itself except as related to your patents, is that right?

A. Yes.

Q. And so at that time, and as these contracts, Plaintiff's Exhibit 1 and 3 reflect, you obtained a contract with the purchasers of these machines to pay you a royalty based upon the use of those machines, is that right?

A. Yes.

Q. And that was because you had the patents on various devices built into the machine, is that right?

A. Oh, for that and other reasons. For the reasons that they wanted to use the machines and I had to find the way that it could be suitably financed to make it a business proposition.

Q. Yes?

A. And to give the time to pay for the machine.

Q. Yes. And aside from the business consideration you may have had, actually the sole interest you may have had in any of these hop picking machines after they were sold was the patented devices that were incorporated into these machines, isn't that right; you had no power to repossess [fol. 92] these machines or anything of that sort, is that right?

A. No, I had no power to repossess the machines.

Q. If they were destroyed it was the farmers absolute loss, is that right?

A. Yes.

Q. And he had the power to use it, didn't he?

A. Yes.

Q. And this you licensed to him based upon your ownership of the various patents listed in the contracts?

A. Yes, that is so. I sold these machines to the growers and in order to be able to sell them those machines I had to secure those patents for their protection, so that they wouldn't be attacked for infringement.

Q. Well, you were the only person who could have attacked him for infringement?

A. No.

Q. Your predecessors were actually the only ones that had any interest in these patents, is that so?

A. Well, yes, but I had to secure those—in order to sell those machines I had to secure those patents from E. Clemens Horst Company.

Q. Yes, but after you obtained the assignment of these patents from Horst Company you were the owner of those at that time? I am speaking of Thys and Miller and Thys Corporation.

A. Well, in my contract with the Company I was requested to collect the royalties.

Q. Yes, but insofar as infringement, the only fear of infringement would have been from whoever happened to own these patents, is that right?

[fol. 93] A. Yes, but the Horst Company had an interest.

Q. Yes, but that was because of your contract with Horst and not because of anything that was in these contracts, is that right; E. Clemens Horst wasn't a party to these contracts?

A. No.

Q. And in these contracts, Plaintiff's Exhibits 1 and 3, you grant to these defendants a license to use these patents, isn't that so?

A. Yes.

Q. And that was because you were empowered to do that in so far as Horst Company was concerned?

A. Yes.

Q. And you were not empowered to grant anything that E. Clemens Horst claimed you had no right to grant?

A. No.

Q. I notice that these contracts, Mr. Thys, except for the signatures and blank lines and dates and so forth appear on what evidently is a form contract that you have had prepared, marked Form A-2, is that right?

A. Yes.

Q. And this form contract was prepared by your attorneys down in California, wasn't it?

A. Yes.

Q. For Thys Corporation?

A. Yes.

Q. And there were some earlier contracts that were on slightly different forms?

A. Yes.

Q. But they were also substantially the same as these [fol. 94] and they were completed by merely completing the blanks in the contracts with any particular purchaser of the machine, is that not so?

A. Yes. Essentially the difference in these contracts is that they are transfer contracts. They are contracts that are used when one who bought the machine sold to another.

Q. These are three party contracts; aren't they, Mr. Thys, between a former owner and a new owner and you, isn't that right?

A. Yes.

Q. And in a particular case where there wasn't a used machine involved and there was a new machine involved and there were only two parties involved, they would be between you and the purchaser?

A. Yes.

Q. But as far as the royalties on the machine, they were actually the same?

A. Yes.

Q. How many machines were manufactured by Lindeman Power Equipment Company, do you recall?

A. Approximately 200.

Q. Approximately 200 machines?

A. Yes.

Q. And then you manufactured some of those yourself?

A. Yes.

Q. And those were shipped up to Washington?

A. Yes.

Q. Most of these Thys type hop picking machines have been utilized here in Washington, isn't that so?

[fol. 95] A. Yes.

Q. Most of them have been utilized here in Washington, haven't they?

A. Yes.

Q. There are some have been used in California?

A. Yes.

Q. Some have been used in Oregon?

A. Yes.

Q. And some have been used in New York?

A. Yes.

Q. And some have been shipped overseas?

A. Yes.

Q. Some have been used in Canada?

A. Yes.

Q. How many portable hop picking machines have been actually manufactured, do you feel, between your own manufacture and Lindeman's?

A. Well, I think Lindeman manufactured approximately 200 and I have manufactured fifteen.

Q. And so it would be something in excess of 200?

A. Yes.

Q. As to all of these machines when they were sold to the original purchasers, all of the owners agreed upon substantially the same sort of instruments that we are here concerned with, Plaintiff's Exhibits 1 and 3, to pay you a royalty for the use of the machines, isn't that right?

A. Well, not those used overseas.

Q. Well, those used in the United States?

A. Yes.

[fol. 96] Q. Would that be a correct statement?

A. Yes.

Q. In other words, wasn't it your business practice at that time to have these contracts available and if someone wanted to purchase these machines they used this form contract and that was the agreement with the grower?

A. Yes.

Q. And all of them or substantially all of them listed the same twelve patents that are included in this Plaintiff's Exhibit 1 and as they appear on Plaintiff's Exhibit 3, is that correct?

A. Yes. I don't know if this original contract included the last one which was issued in 1943, probably because I didn't have the contract before 1943, that would be the only basis.

Q. Commencing with the Patent No. 2144712, which was issued on April 19, 1938, you always included every patent that you had in the contracts, is that right?

A. Yes.

Q. Now, then, as I understand, Mr. Thys, it was also your practice when one of these machines was sold to license them for a period of seventeen years, is that right?

A. When they were originally sold, yes.

Q. Yes, and that would be seventeen years from the time that the machine was sold new?

A. Yes.

Q. Some of these machines were sold as early as 1939 or 1940?

A. The first harvest was 1941.

Q. 1941?

A. Yes.

[fol. 97] Q. And some of those machines were sold in 1941, were they?

A. Yes.

Q. And they carried the license term which would expire in 1958?

A. 1957.

Q. 1941—seventeen years from the date of sale?

A. Yes, you count 1, 2, 3—and 17—

Q. And some of these machines were sold until about 1947 or thereabouts?

A. Yes.

Q. And it was always your practice to license these machines for 17 years from the date that they were originally sold?

A. Yes.

Q. And so you would have machines out that would expire seventeen years after 1941 and seventeen years after 1942, and so on through seventeen years after 1947, is that correct?

A. Yes, that is correct.

Q. When you entered into this contract with Mr. Brulotte, Plaintiff's Exhibit 1, which is dated August 10, 1948—now that involved a used machine, of course, didn't it?

A. Yes.

Q. That involved a machine that had been manufactured in 1944?

A. Yes.

Q. Did you deal directly with Mr. Brulotte at that time or were your affairs in connection with this handled by someone else?

A. By someone else.

• • • • • • •

[fol. 100] Q. Can you tell from the description which appears on the contracts, Mr. Thys, which patent would in- [fol. 101] clude the angle iron type supporting bar for the fingers which would be designed to be attached to it?

A. No, that is not listed in these patents.

Q. That is not listed in these patents?

A. Except it is listed under other patents pending.

Q. This other patent pending was not licensed by this contract, was it?

A. Yes. Yes, it is listed with the other patents and it says "Patents Pending".

Q. Then, it is your construction that any patents that you hereafter acquire from the date of the contracts the other party would have license to use it after you acquire it?

A. Any patent that was pending.

Q. At the time the contract was signed?

A. Yes.

Q. Did you have a patent pending on August 10, 1948 for an angle iron type picking bar and supporting bar and fingers to attach to it?

A. Yes.

Q. Was that patent ever issued?

A. Yes.

Q. Was that the patent that was declared invalid in a suit in California?

A. Yes.

Q. It was declared invalid?

A. Yes. And I have had other patents later.

Q. But you had not applied for those on August 10, 1948?

A. I could check on that.

Q. You don't recall now?

[fol. 102] A. No.

Q. Now, on August 10, 1948, did you have a patent pending for the bucket line that was used for the diamond mesh screen for breaking up clusters?

A. That would be in one of these here.

Q. Which one of these?

A. I don't know.

Q. It would be in one of those patents?

A. Yes, in one of those patents. One with the buckets.

Q. You actually invented and tested and worked with the first portable hop picking machine in the United States, didn't you?

A. Yes.

Q. And you were the first commercial manufacturer of a portable hop picking machine?

A. Yes.

Q. To date there has been no other manufacturer of a portable hop picking machine, has there?

A. I don't think so.

The Court: Since when?

Mr. Countryman: To date.

The Court: From when?

Mr. Countryman: From the time he started until the date of this trial.

The Court: Yes.

Q. Rephrasing that, Mr. Thys, you have been the only manufacturer in the United States, at least, manufacturing portable hop picking machines?

A. Yes.

Q. And from the time that you first went into the business [fol. 103] until the present date, June 23, 1960, you have been the only manufacturer of picking fingers for use on portable hop picking machines?

A. No.

Q. Others have manufactured them but they have been licensed from you, haven't they?

A. Yes.

Q. In other words, it has been under your patents that the only picking fingers have been manufactured in the United States?

A. I think so.

Q. And wouldn't it also be a true statement, Mr. Thys, that it is under your patents that the only buckets for catching hops have been manufactured for use in portable hop picking machines or equipment?

A. Yes.

Q. And you have been the sole supplier, have you not, Mr. Thys, up to the present time of the brushes which are designated in Plaintiff's Exhibit 19 as "K" in this diagram, you are the sole supplier of these revolving brushes marked "K"?

A. I don't know.

Q. You don't know about that?

A. I think I am.

Q. You believe you are?

A. I think anybody could manufacture brushes.

Q. Certainly, the brush was never patented?

A. No, it wasn't ever patented.

Q. Have you ever restrained anyone from providing brushes for use with your portable hop picking machines?

[fol. 104] A. No.

Q. As I understand it, Mr. Thys, as you entered into these various contracts there will be something in excess of 200 such contracts or perhaps more because the machines have changed hands, you have been entering into this sort of contract with a great many people, have you not?

A. Yes.

Q. And they were always given the same treatment by you, weren't they?

A. Yes.

Q. They were all licensed to use these twelve patents that are licensed and listed in your contract?

A. Yes.

Q. And under your construction of this contract they were all licensed to use any patents you had pending under these contracts?

A. Yes.

Q. Originally the royalty to be paid in these contracts was \$5.00 per 200 pound bale?

A. Yes, sir.

Q. And that was later reduced to \$3.33⅓ per bale?

A. Yes.

Q. \$3.33⅓ per 200 pound bale of dried hops?

A. Yes.

Q. You did that according to contract?

A. Yes.

Q. And so when the contracts in existence were modified by you so that everyone was receiving the same treatment by you so far as royalty is concerned at any particular time?

[fol. 105] A. Yes.

• • • • • • •

[fol. 107] Q. You have contracts out with the farmers covering the payment of royalties until what year, Mr. Thys?

A. I don't know.

Q. You have some at least until 1962 or 1963?

A. Yes.

Q. Do you have some for 1963?

A. Yes.

Q. Do you have any for 1964, to your recollection?

A. Yes, I must have.

Q. And do you have any for any period after that, to your recollection?

A. I don't know.

Q. You wouldn't know about 1965?

A. I wouldn't know.

Q. I see. And that has been upon the basis of these twelve patents that are listed in the contracts Plaintiff's Exhibits 1 and 3?

A. Yes.

Q. Any other patents that have enabled you to obtain a licensing arrangement until 1965, Mr. Thys?

A. Any other contracts?

Q. Are there any other patents that you have?

A. I have other patents, yes.

Q. That have been acquired since 1943?

A. Yes.

Mr. Countryman: I see.

The Court: What do you mean, patents? Patents on hop picking machines or patents on anything else?

[fol. 108] Mr. Countryman: Well, that is what I am trying to bring up, Your Honor.

The Court: Well, that would be proper.

Q. Do these patents cover anything other than portable hop picking machines?

A. Yes, some of them do.

Q. How many patents do you have for portable hop picking machines outside of these twelve listed in your contracts?

A. Six or seven.

Q. And during what period of time were they acquired by you; I take it, it would be since 1943?

A. Yes, since 1943.

Q. Up until when?

A. I think that the last patent issued pertaining to hop picking machines was issued in 1952.

Q. In 1952?

A. Yes.

Q. I see. Have any of these portable hop picking machines been scrapped, to your knowledge, actually destroyed?

A. Well,—

Mr. Hutcheson: Oh, that is objected to as immaterial.

Mr. Countryman: I want to inquire whether any have been destroyed.

Mr. Hutcheson: I don't think Mr. Sherman of the Sherman Anti Trust Laws cares whether a hop picking machine was scrapped.

The Court: Objection overruled.

Q. Mr. Thys, have you ever consented to the termination of any further payment of royalties by an owner of a hop picking machine when he elected to junk it out and scrap [fol. 109] it?

Mr. Hutcheson: Objected to as immaterial.

Mr. Countryman: Your Honor, in order to show this plaintiff's method of operation, I have to develop some practice.

The Court: It may have something to do with the case. I don't know yet. It may have. Go ahead and answer.

A. Would you repeat the question?

Q. Yes. I say, have you ever consented, Mr. Thys, when some owner of a hop picking machine elected to scrap it or junk it, have you ever consented to that owner terminating any further royalty payments to you?

A. Yes, we have always cooperated with the growers when the contract became a hardship and there was some justifiable reason to terminate the contract we have done so.

Q. Has it been your practice when an owner goes out of the hop business to terminate any further obligation to pay royalties?

A. Well, we have studied every case.

Q. Your construction of these contracts, Plaintiff's Exhibit 1 and 3, it is your understanding of those, it doesn't matter what happens to a machine, if it is scrapped out, he is still obligated to pay you this minimum royalty until termination of the last year provided for in the contract, is that right?

A. Yes.

Q. And any relinquishment or waiver of any payments has just been by grace and not because you were obligated to do it?

A. That's right.

[fol. 110] Q. Mr. Thys, you of course reside down in California and it is only periodically that you get up to this part of the country, isn't that so?

A. Yes.

Q. You by no means have any personal knowledge of the history of these more than 200 hop picking machines that have been sold by you that were manufactured by Lindeman's?

A. Unless the history is brought to my attention.

Q. Has it been your practice, Mr. Thys, to waive payments for a few years in some instances in exchange for the promise to tack on that many years on the end of the contract; in other words, for two or three years a farmer wished to avoid his obligation to pay you royalties, have you ever extended the term of the contract for that period of time and discharged such immediate obligation to pay for the two or three years?

A. Sometimes I have done that but, of course, all of those cases have been negotiated on their merit.

Q. I see. In the contracts that you have, Mr. Thys, that will expire in 1965, that will not expire until then, they have all been negotiated, I presume, since, let me see, 1948, they were for seventeen years, too, weren't they?

A. If my recollection is right, the last contracts and the last machines were built in 1947 or 1948.

Q. And you added seventeen years to that, then?

A. Yes.

Q. And were they, too, on your Form A-2 or a similar type form which listed the twelve patents that are on this contract?

[fol. 111] A. Yes.

Q. And the owners of those machines then were by you licensed to use any of these twelve patents?

A. Yes.

The Court: I didn't get the answer there. He says the last machines were built in 1947. When were the last machines sold, the new machines?

Q. Mr. Thys, could you answer that last question, when were those last new machines actually sold to the farmers?

A. In 1947.

Q. In 1947?

A. In 1947. I am not sure of those dates but it was my understanding it was 1947.

Q. It was always your practice to provide royalties payments for seventeen harvests of hops, is that correct?

A. Yes.

Q. And so if you sold a machine after September after the hop picking season had passed there will be an obligation to pay for the seventeen years afterwards, for example 1948?

A. Yes, that is correct.

Q. And so you would obtain the full seventeen years or the full seventeen hop harvests?

A. Yes.

• • • • • • •

[fol. 113] Q. Do you have the general type of contract, Mr. Thys, which we are concerned here with, which provides for the absolute sale of the machine with the right to use it and the licensing of the owner of the machine with the right to use it, that is the only type of contract you entered into with a purchaser of a machine desiring to use it, is that correct?

A. Yes.

Q. And that would be true of here or Oregon or California, [fol. 114] or wherever it was sold?

A. Yes.

The Court: That would be so only for the three-party agreements, would it not?

A. I beg your pardon?

The Court: That would be so only for the three-party agreements?

A. For any agreement.

The Court: I mean for the machines is this the type used when you originally sold them?

A. Oh, no, it isn't the type used when we originally sold them.

The Court: Is that what you meant?

Q. Mr. Thys, to clear that up, on a two party agreement, or it may be described as an agreement between you and the original owner of the new type machine, didn't he too acquire an absolute right and title to the machine except for the right to use it?

A. Yes.

Q. And he too contracted with you to pay royalty for the use of the machine?

A. Yes.

Q. And that was because you had these twelve patents that are set forth in the contract that you reserve the right to use it and licensed that out?

A. Yes.

The Court: Then, the two party contracts were virtually the same as these?

A. Yes.

Q. Mr. Thys, except for periodic changes in these ma- [fol. 115] chines, some of which have proven to be improvements and some of which have proven not to be as good as formerly, these machines have substantially the same operation?

A. Yes.

* * * * * * *

[fol. 116] Q. As a practical matter, even today in 1960 with your portable hop picking machines and with any other manufacturer's stationary type machines, it is impossible, is it not, to pick 100 percent clean hops?

A. No, that isn't impossible.

Q. Is that not impossible?

A. Well, it all depends upon what you call 100 percent hops, but by test we have had hops inspected zero-zero and we have had them graded that way.

Q. I see. That is the ultimate and that is what you are always aiming for?

A. Yes. Yes.

• • • • • • •

[fol. 121] Q. Mr. Thys, as I understand it, the experimental work you did on these machines was done in California, is that right?

A. Yes, mostly. Mostly. I did some here, too.

Q. But the original pilot models and the experimentation of the work done developing them was down in California?

A. Yes.

Q. You actually used them in hop fields down there, as I understand it?

A. Yes.

• • • • • • •

[fol. 144] Edouard Thys, called as a witness on rebuttal by the plaintiff, having been previously sworn, was examined and testified as follows:

Direct examination.

By Mr. Hutcheson:

• • • • • • •

[fol. 150] A. It is also a patent incorporated in the defendants' machines. And No. 2,336,280, that is Exhibit 16, it isn't incorporated on the portable picking machines. And, then, I have here a patent which I don't think has been brought into the exhibits. It is No. 2,599,080 which is

a later patent and covered through other patent pendings. They were pending at the time.

Mr. Hutcheson: Will you mark these separately.

(Whereupon, Patent 2,559,080, Letters Patent, was marked as Plaintiff's Identification No. 22.)

Q. Showing you Plaintiff's Identification 22, is this Patent No. 2,599,060?
A. "080", isn't it?
Q. That was issued to you personally?
[fol. 151] A. "080". Yes.

The Court: It is "080"?

A. Yes, "080".
Q. Pardon me, "080", it is my mistake. Let me see, the date of issuance was June 3rd, 1952, is that correct?
A. That is correct.

• • • • • • •

Mr. Countryman: Mr. Thys, this patent, of course, is not one that is listed in the contracts, Plaintiff's Exhibits 1 and 3, is it?

A. Except for the patent pending.

Mr. Countryman: And I believe you testified yesterday that it was your construction of these contracts, at least, that as to any patents pending at the time the contract was signed the purchasers were licensed to use those patents if they were eventually issued by the patent office?

A. Yes.

[fol. 152] Mr. Countryman: Did you ever inform either Mr. Brulotte or Mr. Charvet that as of June 3rd, 1952 they were now licensed to use Patent No. 2,599,060, relating to a "Hop Picking Mechanism"?

A. I didn't inform them personally, no, but I did produce a picking bar—finger bars included in that patent and they were available to them if they were wanting a replacement, and every year there were some bars that were replaced and they were supplied as a replacement.

Mr. Countryman: They were supplied to any farmer who owned a hop picking machine and wished to purchase them?

A. That is right.

Mr. Countryman: Well, that would be dependent upon whether or not this particular farmer had a machine at the time you signed his contract?

A. That is right.

Mr. Countryman: And so Mr. Brulotte and Mr. Charvet had no additional privilege over any other owner or anyone who might be buying these picking machines, is that right?

Mr. Hutcheson: Well, are you referring to other owners of licensing contracts? I object to the question as ambiguous.

Mr. Countryman: Well, when you manufactured hop picking fingers through this patent, Mr. Thys, they were sent up to your agents or your dealers here in Yakima for sale, weren't they?

A. Yes.

Mr. Countryman: And they were offered for sale by Moxee City Warehouse and by Lindeman's at various times?

A. Yes.

[fol. 153] Mr. Countryman: And they were offered for sale to the public generally?

A. Well, they were offered for sale to only owners of portable hop picking machines they would fit.

Mr. Countryman: Only on those machines and they would fit in any Thys type portable hop picking machines?

A. Yes.

Mr. Countryman: Mr. Thys, as to any owner of a Thys type portable hop picking machine which may have been purchased in 1944, and was licensed in 1944, he could obtain these fingers and put them on the hop picking machine?

A. Yes.

* * * * * * *

[fol. 154]

OFFERS IN EVIDENCE

The Court: Objection overruled. It will be admitted.

(Whereupon, said Letters Patent, No. 2,559,060, dated June 3, 1952, was received in evidence as Plaintiff's Exhibit No. 22, and is made a part of this Statement.)

• • • • • • •

By Mr. Hutcheson:

Q. Handing you Exhibit 22, the patent that has just been referred to, would you explain what features, if any, of this are included in these machines?

A. This is a finger bar which is a further development over the finger bar, Patent No. 2,448,063, which I don't think is an exhibit but which was declared invalid, and [fol. 155] the structure is different and it was manufactured after 1944 and offered for sale to the users of portable hop picking machines without additional royalty after that change.

Q. As counsel has mentioned here, parts for hop picking machines were for sale in the Moxee City Warehouse and also at Lindeman's here in Yakima?

A. That is correct.

Q. And that was by arrangement with you under your agreement, was it?

A. Yes. And they have been advised that parts would be available here through Lindeman and Moxee City Warehouse. The Moxee City Warehouse took over the obligations of Lindeman Power Equipment Company.

Q. Now, counsel asked you whether that was available to all portable hop picking machine users in this area. Were those machines covered by licensing agreements issued at one time or another of this same general nature?

A. I don't understand the question.

Q. Well, counsel asked you who could get the benefit of these subsequent patents, and you said that the hop picking machine owners in this area, and my question is were

license agreements of this general type issued to those hop picking machine owners in the State of Washington?

A. Yes.

Q. Let me see, you had finished as to this particular patent?

A. Yes. Now, there is a further patent—there is another patent that is pending.

[fol. 156] Q. Let me see, taking them in the order that the Clerk has marked them and numbered them here, showing you Identification No. 23, being Patent No. 2,448,063, issued to you personally on August 31st, 1948, do you identify that as that patent?

A. Yes. Yes.

The Court: We will have a short recess.

(Whereupon, after the usual morning recess, the following proceedings occurred:)

By Mr. Hutcheson:

Q. Showing you Identification 23, Mr. Thys, being a Patent No. 2,448,063, issued to you personally on August 31st, 1948, that is the original patent issued to you, is it?

A. Yes.

Q. And I will ask you whether or not the invention covered by that patent is or is not included in these machines?

A. It is.

Q. Would you describe just briefly the nature of the invention covered by that patent?

A. It is the assembly of the picking fingers—

Mr. Countryman: Your Honor, I object to him testifying to this unless this is offered for evidence.

Mr. Hutcheson: All right, we offer it at this time.

The Court: Was this pending at the time?

A. Yes.

Mr. Countryman: It wasn't pending at the time of the contract with Ray Charvet, which was in 1951 and the patent of 1948, and it wasn't included in the contract with Ray Charvet and wasn't pending at that time and it hadn't

[fol. 157] already been issued, and I want to raise the objection that I did to the last patent he offered, that it isn't within the scope of either of the licenses granted to either of these defendants.

The Court: It will be received.

Mr. Hutcheson: Well, we contend it is included within these other patents.

The Court: It will be admitted.

(Whereupon, said Letters Patent, No. 2448063, dated August 31st, 1948, was received in evidence as Plaintiff's Exhibit No. 23, and is a part of this Statement.)

Mr. Countryman: Your Honor, so that I may be clear in this, and so that the record may disclose it, is that patent issued only as to Ray Charvet and wife or as to Walter Brulotte and wife?

Mr. Hutcheson: Well, I submit that can be determined later. It is admissible in evidence, certainly.

The Court: Well, I will decide that point later but it will be admitted in evidence.

Mr. Hutcheson: Counselor—Mr. Countryman, I would like to withdraw Identification 27. I did the same thing as you did. I see it is a duplicate of 23.

Q. Now, showing you Exhibit 23, Mr. Thys, will you go ahead and state the nature of the invention covered by that patent, will you state that just briefly?

A. It covers the shape of the fingers and they—the way that they are assembled on an angle bar which is especially built to receive the fingers and secure them.

[fol. 158] Q. Showing you Identification 24, a patent issued to you personally on December 2nd, 1952 on application filed October 18, 1949, the patent number being 2,620,-064, I will ask you whether that is the original patent issued to you under that number on that date?

A. Yes, it is.

Q. Well, you want your notes (getting notes). What would you say as to whether that patent is or is not incorporated in these machines?

A. No, it is not incorporated in these machines. It was more specifically designed for a stationary machine, but

then later modifications were made and it was adaptable to a portable machine.

Q. Showing you Identification 25, a patent issued to you personally, No. 2,647,626, issued on August 4th, 1953, applied for January 26th, 1951, just a few days before the Charvet contract, that is the original patent issued to you under that number, is it?

A. Yes, it is.

Q. And what would you say as to the invention covered by that patent?

A. That patent is especially designed to remove stems from hops after all other cleaning operations have been accomplished, it removes the stems and it is applicable to a portable machine and it was made available to the users of all of the portable hop picking machines.

* * * * * * *

[fol. 159] Q. What is that used for? Is it incorporated in the portable machine?

A. Yes, it is incorporated in the portable machine.

Q. Is it incorporated in the same machine or separate machines?

A. In the same machine.

Q. And bearing in mind that growers want cleanly picked hops devoid of leaves and stems so far as possible—by the way that is true, is it not?

A. Yes.

Q. What would you say as to the appropriateness of [fol. 160] these improvements in a machine of that nature?

A. It is an improvement—

Mr. Countryman: I object because it still hasn't been offered in evidence.

* * * * * * *

[fol. 161] (Whereupon, said Patent No. 2,647,626, dated August 4, 1953, was received in evidence as Plaintiff's Exhibit No. 25, and is made a part of this Statement.)

* * * * * * *

By Mr. Hutcheson:

Q. Let me see, I think I have asked you one question that counsel objected to that I would like to ask you again. What would you say as to the appropriateness of adding the invention covered by this patent, Exhibit 25, in these portable hop picking machines?

A. It produces cleaner hops by removing the last stems.

Q. And it is readily practicable to add these features to these machines, is it?

A. Yes.

Q. Now, showing you Identification 26, a patent granted to you on the 25th day of September, 1956, No. 2,764,163, I will ask you whether that is the original patent granted to you?

[fol. 162] A. Yes, sir, that is the original patent.

Q. And is that with reference to another improvement on portable hop picking machines?

Mr. Moore: Is that 26, Hutch?

A. Yes.

Mr. Hutcheson: Yes, 26. We offer it in evidence.

Mr. Countryman: Your Honor, this patent wasn't pending as to either contract. The application as revealed by the patent shows on January 27, 1953 and the patent wasn't issued until September 25, 1956, and so it clearly can't be within any construction of any of the contracts. It wasn't pending either in 1948 or 1951.

Mr. Hutcheson: I concede that but we are being accused of mis-use of the patent laws and so it is the subject of proper inquiry.

Mr. Countryman: Well, we are not complaining of any mis-use of these patents, surely, but only as to the contracts.

Mr. Hutcheson: Well, they complained of the licenses continuing into the 60's, and of course, one of the justifications for that is the additional patents that were issued.

Mr. Countryman: Well, in this case in the contract on Ray Charvet, then, the contract is due to expire on the completion of 1960 harvest, whereas it has been demonstrated in the evidence that the last patent in the contract expired in 1957 and we maintain the position that these other patents pending do not operate in theory or in fact to li-

cense either of these defendants in the use of these subsequent patents as contrasted with these rights which were [fol. 163] given to the general public.

Mr. Hutcheson: We have been accused of the mis-use of the patent laws.

The Court: I am not just sure what the parties are contending and I will withhold admission until later because if there is some contention that there is mis-use here it would be admissible but if not it would not be of any probative value.

* * * * * * *

[fol. 164] A. We felt that these other patents were related to hop picking machines and in order to protect the users of portable machines we had to secure a whole package of patents that could be construed as being infringed upon by the portable machines. That is one reason. Another reason is that very often the users decide to build [fol. 165] supplementary cleaners in the kiln, and therefore build a little home-made machine which could be construed as infringement on some of these patents. In order to guarantee them to be free from any patent infringement claims it is true that we have given them licenses to more patents than actually we believe that they need as being used in the portable machines. In fact, none of our users of portable hop picking machines have been sued for patent infringement. I think that covers the reasons for having these patents.

Q. Mr. Thys, in connection with these inventions, I will ask you whether or not there was a great deal of time involved in the research that went into the patents?

Mr. Countryman: That is completely immaterial. It doesn't matter whether he dreamed this up in one night or worked on it twenty years, and it is completely immaterial.

Mr. Hutcheson: Well, he objects to the charge of royalties.

Mr. Countryman: I am not objecting to charge of royalties in the abstract sense. It doesn't matter how long he worked on these machines.

The Court: I think it is immaterial, objection sustained.

Q. On the original purchase price of these machines was there anything included to cover your research expense that is involved in making these inventions that are covered by these patents?

Mr. Countryman: That is objected to as completely immaterial.

Mr. Hutcheson: It is the reason for the royalty payments [fol. 166] that they are objecting to, as I understand it.

Mr. Countryman: It is the contract, Your Honor, that we have got to construe by its corners.

The Court: Objection sustained. I think it is a question of whether the charges are legal, and if they are legal he can charge as much as the traffic will bear. I don't see why that would be material.

Mr. Hutcheson: Counsel is objecting to the seventeen year period under these original contracts and royalty contracts. Will you explain the reason for that?

A. Well, it was—

Mr. Countryman: Well, Your Honor, again, we have got to construe this contract whether it is legal or illegal and the subjective processes or purposes of Mr. Thys entering into a contract is not material. It is according to the law of the land.

Mr. Hutcheson: Well, we are being accused of willful mis-use of patents and—

Mr. Countryman: Well, subjective intentions are not a matter of concern in the violation of the law.

Mr. Hutcheson: That is your expression, I didn't say anything about subjective.

The Court: Objection overruled.

A. It is to finance the machines. If all the development work was assessed to the few machines sold, and the expectation was not to sell very many, it would be prohibitive and therefore the method was used so that the machine essentially would be paid for out of savings and after the first two years or so we found that the royalty was higher than was needed to assure the repayment of the development [fol. 167] ment work and that the prospects were good, and

so we reduced the royalty. We could have possibly reduced the term and the length of the royalty payments and maintain the same amount of royalty or reduce the royalties and keep the same time, and that is what we elected to do, and we thought it was in the best interests of the users.

Q. The royalty originally was $5.00 per bale?

A. Yes, sir.

Q. That is what you testified yesterday?

A. Yes.

Q. From a practical business standpoint were the hop growers financially in a position when they bought the machines originally to pay the full cost of the machines and the full research and development expense there that you incurred?

A. Yes.

Mr. Countryman: Your Honor, this witness has no testimonial knowledge of the financial ability of something in excess of 200 farmers. He has got to have some testimonial knowledge of these facts if he is going to testify.

Mr. Hutcheson: He dealt with them and he should know.
place, that would be hearsay.
can charge as much as the traffic will bear. I don't see why

The Court: He has shown no knowledge so far as checking their financial condition.

Q. As you testified yesterday, Mr. Thys, were there a number of instances where for financial reasons hop picking licensees or hop growers requested extensions of time in which to make royalty payments; in other words, to [fol. 168] waive payment this particular year and have it added on another year at the end of the contract term?

A. Yes.

Q. Have there been quite a number of instances where the growers requested that of you?

A. Yes.

Q. And you have consented to that where it appeared appropriate under the circumstances, have you?

A. Yes.

Q. Where there is a transfer agreement, a sale of the machine from one user to another, and a three-party contract, as there was here, there is a total of seventeen years altogether, is there, for the first user plus the second user?

A. Yes, sir.

Q. And added together it makes the seventeen years?

A. Yes.

Q. Have you ever terminated any of these licenses—well, with reference to these two contracts involved here, Brulotte and Charvet contracts, have you terminated them on account of the non-payment of royalty?

A. No.

Q. Has there been any interference whatever on your part with the continued use of the machines by the defendants?

A. No.

Q. And is that true generally as to the licensed hop picking machine users, have you interfered with the continued use by any of those users?

A. No.

Q. Now, the payment on royalties, have you ever in prac- [fol. 169] tice imposed any restriction whatever upon the use of the machines by the purchasers of the machines?

A. No restriction except they are supposed to be used for what they were designed for, that is, picking hops.

Q. Other than that, have you interfered with the manner of their use in any respect?

A. No, sir.

* * * * * * *

Cross examination.

By Mr. Countryman:

* * * * * * *

[fol. 170] Q. But I believe you testified yesterday that there was considerable modification by the Lindeman Company and other dealers during this period?

A. Well, I didn't say "considerable". Certainly, I can't police all of the machines to see that they didn't make any modifications.

* * * * * * *

[fol. 171] Q. Mr. Thys, handing you Plaintiff's Identifications 22, 24, and 25 and 26—

Mr. Hutcheson: Well, they are exhibits, aren't they?

Mr. Countryman: Pardon?

Mr. Hutcheson: They are exhibits rather than identifications.

Mr. Countryman: Or exhibits, pardon me.

Q. Do you have any personal knowledge yourself that any of those devices were ever in fact incorporated in either the machine of Walter Brulotte or the machine of Ray Charvet?

A. I don't know. I assume that they were. At least this Patent 2,599,080, Exhibit 22, was.

Q. You assume that they were but you don't have any actual knowledge yourself?

A. I have no actual knowledge, but this design, the finger bars, which were covered by the Patent under Exhibit 22, were pretty well worn out and would have been replaced by this time.

[fol. 172] Q. Well, of course, the finger bars don't wear out unless the machine is used, is that right?

A. That's right.

Q. And so you have no way of knowing whether the finger bars were incorporated into either the machine of Walter Brulotte or of Ray Charvet?

A. No.

Q. Now, Mr. Thys, Patent No. 2,448,063, Exhibit 23, this was the one we just mentioned that was declared invalid?

A. Yes.

Q. It is also true, isn't it, Mr. Thys, that you have no personal knowledge whether Mr. Brulotte or Mr. Charvet incorporated any of the principles of that patent into their machines?

A. Of course, it is rather difficult for me to testify because all of my records have been burned in the fire, but I am pretty sure that that wasn't incorporated in the machine when they were building it.

Q. But you have no personal knowledge of what finger bars were actually on the machines of Mr. Brulotte and Mr. Charvet?

A. I don't know what finger bars were on the machines but I assumed that there were some of the new finger bars on those machines.

Q. You assumed that?

A. Yes, if they were acquired by Mr. Brulotte in 1948 and in 1951 when acquired by Mr. Charvet.

Q. And so in all fairness, Mr. Thys, you are just assuming that but you have no actual knowledge of what was on those machines?

[fol. 173] A. That is true but I have an actual knowledge that they were available to them.

Q. They could have been incorporated, doesn't it amount to that?

A. They could have been incorporated and they probably were.

Q. You assume that they probably were, is that right?

A. Yes.

Mr. Countryman: No further questions.

Redirect examination.

By Mr. Hutcheson:

Q. Mr. Thys, did you ever have any intention to violate any of the anti trust laws or patent laws so far as you were aware?

Mr. Countryman: Oh, this is the wrong time to inquire as to this, Your Honor. We can't go back and forth and back and forth all day on this witness. He can ask any questions on matters I covered and he wishes to cover but it is outside of the scope of my cross examination; and not only that, I am sure that the case authorities and all of the law under the anti trust laws is quite aside from any intentions that a particular person might have. He is required to comply with the law and if he fails to comply, he fails at his peril, even though he may have good intentions but it is clearly immaterial.

The Court: Objection sustained.

Mr. Hutcheson: That is all.

* * * * * * *

[fol. 176]

Plaintiff's Exhibit No. 1

(See opposite) ☞

Form A-2

AGREEMENT

THIS AGREEMENT, Made this [illegible] day of [illegible], 19[illegible], by and between THYS COMPANY, a Corporation, hereinafter referred to as First Party, and [illegible], of [illegible], hereinafter referred to as Second Party and [illegible], of [illegible], Washington, hereinafter referred to as Third Party,

WITNESSETH:

WHEREAS, First Party is the licensee of E. Clemens Horst Co., a New Jersey Corporation, of San Francisco, California, under certain United States Letters Patent relating to the art of hop picking and separating machines of both portable and stationary types, hereinafter referred to as hop picking machines or as machines, and under certain United States Letters Patent for improved methods of maintenance of said machines; and

WHEREAS, First Party is willing to license Second Party to use said machines and to practice the methods and processes disclosed and claimed in the Letter Patent hereinafter listed and related thereto, but upon the terms and conditions hereinafter set forth; and

WHEREAS, Second Party is willing to buy certain of said machines from Third Party and to be licensed by First Party to use said machines and to practice the methods and processes disclosed and claimed in the letters Patent hereinafter listed and related thereto, and upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the purchase price specified in Paragraph 2 hereof to be paid by Second Party to Third Party, and in consideration of the covenants and agreements herein contained, and for other good, adequate and valuable consideration between the parties moving,

IT IS AGREED as follows:

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, [illegible] (--2--) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows: [illegible]

said machine(s) to be delivered by Third Party to Second Party on or before [illegible], 19

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Sixty two hundred and no/100 dollars ($6,200.00) and Third Party acknowledges receipt of said sum of Sixty two hundred and no/100 dollars ($6,200.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U. S. Patent Number	Date of Issue	Invention
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 29, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator

1. Third Party hereby sells to Second Party and Second Party buys from Third Party,

(--2--) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows:

[illegible] and [illegible]

said machine(s) to be delivered by Third Party to Second Party on or before [illegible], 19

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Sixty two hundred and no/100 dollars ($6,200.00) and Third Party acknowledges receipt of said sum of Sixty two hundred and no/100 dollars ($6,200.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and relating thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U. S. Patent Number	Date of Issue	Invention
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2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from date first above written until completion of the 19[illegible] harvest, irrespective of the date of expiration of any of the Letters Patent hereinbefore listed.

8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part, to use any such machine during any part of a particular picking season because of a serious breakdown or breakdowns of such machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based on the ratio the number of days during which such machine cannot be used bears to the total number of days in the normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party.

9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty property payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s).

[fol. 177]

(See opposite) ☞

10. Second Party will use coir yarn or other twine satisfactory to First Party in the operation of said machine(s), but in any event the royalties provided in Paragraph 8 hereof shall be payable whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed in said Patent No. 2,114,712 be made use of.

11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect.

12. First Party agrees to furnish at Sacramento, California, the place of manufacture of said machines, or at such other place at which said machines may hereafter be manufactured, if First Party shall at the time have the same in stock, such replacement parts as may be necessary for making repairs to said machines, and Second Party shall pay or cause to be paid for all such replacement parts furnished by First Party a reasonable price together with all transportation charges and expenses of installation.

13. Second Party shall keep said machine(s) in a good state of repair and shall promptly renew and replace all broken or worn-out parts.

14. Second Party shall pay, prior to delinquency, all taxes on said machine(s) and shall maintain or cause to be maintained Insurance against loss of or damage to said machine(s) by fire, theft and collision in amounts equal to their full insurable value in insurance companies and under policies satisfactory to First Party, and shall, from time to time, give to First Party such information as First Party may reasonably request concerning such insurance and the payment of premiums thereon.

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred in to Paragraph 4 hereof, but such action on the part of the First Party shall not relieve Second Party from the consequences of any such default.

16. Second Party shall keep or cause to be kept on said machines in plain view at all times any and all plates and stencils or other markings placed thereon by First Party.

17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof ~~except as expressly otherwise~~ herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Naches, Washington
or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

Thys Company   THYS COMPANY

---

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred to in Paragraph 4 hereof, but such action on the part of First Party shall not relieve Second Party from the consequences of any such default.

16. Second Party shall keep or cause to be kept on said machines in plain view at all times any and all plates and stencils or other markings placed thereon by First Party.

17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at ~~Naches, Washington~~ (Route 5, Yakima)
or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

THYS COMPANY E O Levy
First Party

Herke Bros by J. P. Herke
Second Party

Walter Brulotte
Third Party

STATE OF Washington }
County of Yakima } ss.

On this 12th day of August, 1952, personally appeared before me Walter Brulotte and Herke Bros. by J. P. Herke to me known to be the individuals described in and who executed the foregoing instrument, and acknowledged to me that they signed and sealed same as their free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal this 12th day of August, 1952.

Elwood Hutcheson
Notary Public for the State of Washington
residing at Yakima.

First Party such information as First Party may reasonably request [illegible] premiums thereon.

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred in to Paragraph 4 hereof, but such action on the part of the First Party shall not relieve Second Party from the consequences of any such default.

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17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Moxee, Washington
or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

[illegible] Company
by: [signature]
First Party

[illegible] Company
[signature]
[illegible]
Second Party

Yakima Chief [illegible]
by: [illegible] President.
Third Party

STATE OF Washington
County of Yakima } ss

On this ______ day of August, 19[illegible], personally appeared before me [illegible] Brulotte

to me known to be the individual described in and who executed the foregoing instrument, and acknowledged to me that he signed and sealed same as his free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal this 4 day of August, 19[illegible].

[signature]

Notary Public for the State of ______

residing at ______

[fol. 178]

(See opposite) ☞

Form A-2

AGREEMENT

THIS AGREEMENT, made this 12th day of [illegible], 1952, by and between THYS COMPANY, a Corporation, hereinafter referred to as First Party, and HERKE BROS., of [illegible], WASHINGTON (Route 5, Yakim hereinafter referred to as Second Party and WALTER [illegible] of [illegible], WASHINGTON, hereinafter referred to as Third Party,

WITNESSETH:

WHEREAS, First Party is the licensee of E. Clemens Horst Co., a New Jersey Corporation, of San Francisco, California, under certain United States Letters Patent relating to the art of hop picking and separating machines of both portable and stationary types, hereinafter referred to as hop picking machines or as machines, and under certain United States Letters Patent for improved methods of maintenance of said machines; and

WHEREAS, First Party is willing to license Second Party to use said machines and to practice the methods and processes disclosed and claimed in the Letters Patent hereinafter listed and related thereto, but upon the terms and conditions hereinafter set forth; and

WHEREAS, Second Party is willing to buy certain of said machines from Third Party and to be licensed by First Party to use said machines and to practice the methods and processes disclosed and claimed in the lotters Patent hereinafter listed and related thereto, and upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the purchase price specified in Paragraph 2 hereof to be paid by Second Party to Third Party, and in consideration of the covenants and agreements herein contained, and for other good, adequate and valuable consideration between the parties moving,

IT IS AGREED as follows:

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, One (1) Portable Hop Picking machine (s) identified by First Party's serial number(s) as follows: 44-1-55 said machine(s) to be delivered by Third Party to Second Party on or before [illegible], 1952.

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Two Thousand [illegible] and no/100 dollars ($2,[illegible].00) and Third Party acknowledges receipt of said sum of [illegible] dollars ($[illegible].00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

LICENSE REQ'D

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and/or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

CONDITIONAL

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose for which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

LIMITATION

U. S. Patent Number	Date of Issue	Invention
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine

(1) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows: 44-1-138 said machine(s) to be delivered by Third Party to Second Party on or before January 31, 19[illegible].

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Thirty-Three Hundred - - - - - - - - - - - - - dollars ($3300.00) and Third Party acknowledges receipt of said sum of Thirty Three Hundred - - - dollars ($3300.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and/or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U. S. Patent Number	Date of Issue	Invention
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
[illegible]	November 20, 1938	Hop Separator
[illegible]	December 6, 1938	Hop Picking Machine
[illegible]	December 6, 1938	Hop Separator
[illegible]	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,364	March 12, 1940	Vine Grasper Bar
2,211,287	August 13, 1940	Hop Picking Machine
[illegible]	December 24, 1940	Hop Separator
2,336,230	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from date first above written until the completion of the 1960 harvest irrespective of the date of expiration of any of the Letters Patent hereinbefore listed.

8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious breakdown or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party.

9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty properly payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s).

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, [illegible]

(1) Portable Hop Picking machine (s) identified by First Party's serial number(s) as follows:

[illegible]

said machine(s) to be delivered by Third Party to Second Party on or before August 4th, 1952.

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Two Thousand Nine Hundred and no/100 dollars ($2,900.00) and Third Party acknowledges receipt of said sum of Twenty-nine Hundred dollars ($2900.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

LICENSE RE 6

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and/or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

CONDITIONAL

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose for which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

LIMITATION

U. S. Patent Number	Date of Issue	Invention
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 29, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,188	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

Term intent?

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from date first above written until completion of the 1952 harvest, irrespective of the date of expiration of any of the Letters Patent hereinbefore listed.

8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event, the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious breakdown or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party.

9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty properly payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s).

[fol. 179]

(See opposite) ☞

10. Second Party will use coir yarn or other twine satisfactory to First Party in the operation of said machine(s), but in any event the royalties provided in Paragraph 8 hereof shall be payable whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed in said Patent No. 2,114,712 be made use of.

11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect.

12. First Party agrees to furnish at Sacramento, California, the place of manufacture of said machines, or at such other place at which said machines may hereafter be manufactured, if First Party shall at the time have the same in stock, such replacement parts as may be necessary for making repairs to said machines, and Second Party shall pay or cause to be paid for all such replacement parts furnished by First Party a reasonable price together with all transportation charges and expenses of installation.

13. Second Party shall keep said machine(s) in a good state of repair and shall promptly renew and replace all broken or worn-out parts.

14. Second Party shall pay, prior to delinquency, all taxes on said machine(s) and shall maintain or cause to be maintained Insurance against loss of or damage to said machine(s) by fire, theft and collision in amounts equal to their full insurable value in insurance companies and under policies satisfactory to First Party, and shall, from time to time, give to First Party such information as First Party may reasonably request concerning such insurance and the payment of premiums thereon.

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred to in Paragraph 4 hereof, but such action on the part of First Party shall not relieve Second Party from the consequences of any such default.

16. Second Party shall keep or cause to be kept on said machines in plain view at all times any and all plates and stencils or other markings placed thereon by First Party.

17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Grandview, Washington, (Route 5, Yakima) or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

THYS COMPANY

[signature]

First Party

damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Grandview, Washington or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

THYS COMPANY

[signature]

First Party

Raymond Charvet

Second Party

Oliver Champoux

Third Party

STATE OF Washington }
County of Yakima } ss

On this 21st day of January, 1951, personally appeared before me [illegible] and [illegible] to me known to be the individuals described in and who executed the foregoing instrument, and acknowledged to me that they signed and sealed same as their free and voluntary act and deed for the uses and purposes therein mentioned.

WITNESS my hand and official seal this 21st day of January, 1951.

Elwood Hutcheson

Notary Public for the State of Washington

residing at Yakima.

ELWOOD HUTCHESON NOTARY PUBLIC COMMISSION EXPIRES AUG 17 1951 STATE OF WASHINGTON

[fol. 180]

PLAINTIFF'S EXHIBIT No. 3

(See opposite) ☞

Form A-2

AGREEMENT

THIS AGREEMENT, Made this 21st day of January, 19 [illegible], by and between [illegible] COMPANY, a Corporation, hereinafter referred to as First Party, and [illegible] of [illegible], WASHINGTON, hereinafter referred to as Second Party and [illegible] of Route 1, Toppenish, Wash., hereinafter referred to as Third Party,

WITNESSETH:

WHEREAS, First Party is the licensee of E. Clemens Horst Co., a New Jersey Corporation, of San Francisco, California, under certain United States Letters Patent relating to the art of hop picking and separating machines of both portable and stationary types, hereinafter referred to as hop picking machines or as machines, and under certain United States Letters Patent for improved methods of maintenance of said machines; and

WHEREAS, First Party is willing to license Second Party to use said machines and to practice the methods and processes disclosed and claimed in the Letter Patent hereinafter listed and related thereto, but upon the terms and conditions hereinafter set forth; and

WHEREAS, Second Party is willing to buy certain of said machines from Third Party and to be licensed by First Party to use said machines and to practice the methods and processes disclosed and claimed in the letters Patent hereinafter listed and related thereto, and upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the purchase price specified in Paragraph 2 hereof to be paid by Second Party to Third Party, and in consideration of the covenants and agreements herein contained, and for other good, adequate and valuable consideration between the parties moving,

IT IS AGREED as follows:

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, one (1) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows: 44-L-139

said machine(s) to be delivered by Third Party to Second Party on or before January 31, 19[illegible].

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Thirty-Three Hundred - - - - - - - - - - dollars ($3300.00) and Third Party acknowledges receipt of said sum of Thirty Three Hundred - - - dollars ($3300.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes; and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U. S. Patent Number	Date of Issue	Invention
2,114,713	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
[illegible]	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,0[illegible]	December 6, 1938	Hop Separator
2,187,536	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,264	March 12, 1940	Vine Grasper Bar
2,211,287	August 13, 1940	Hop Picking Machine
2,226,068	December 24, 1940	Hop Separator
2,336,290	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from

10. Second Party will use coir yarn or other twine satisfactory to First Party in the operation of said machine(s), but in any event the royalties provided in Paragraph 8 hereof shall be payable whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed in said Patent No. 2,114,712 be made use of.

11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect.

12. First Party agrees to furnish at Sacramento, California, the place of manufacture of said machines, or at such other place at which said machines may hereafter be manufactured, if First Party shall at the time have the same in stock, such replacement parts as may be necessary for making repairs to said machines, and Second Party shall pay or cause to be paid for all such replacement parts furnished by First Party a reasonable price together with all transportation charges and expenses of installation.

13. Second Party shall keep said machine(s) in a good state of repair and shall promptly renew and replace all broken or worn-out parts.

14. Second Party shall pay, prior to delinquency, all taxes on said machine(s) and shall maintain or cause to be maintained insurance against loss of or damage to said machine(s) by fire, theft and collision in amounts equal to their full insurable value in insurance companies and under policies satisfactory to First Party, and shall, from time to time, give to First Party such information as First Party may reasonably request concerning such insurance and the paymdnt of premiums thereon.

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred to in Paragraph [illegible] hereof, but such action on the part of the First Party shall not relieve Second Party from the consequences of any such default.

16. Second Party shall keep or cause to be kept on said machines in plain view at all times any and all plates and stencils or other markings placed thereon by First Party.

17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chattel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington, or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party [illegible] nor at Grandview, Washington or such other address as may be designated in writing by Second Party to First Party.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in duplicate the day and year first above written.

THYS COMPANY

[fol. 182]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

OPINION—Filed June 28, 1961

This is a suit for royalties claimed due under sale and licensing contracts covering certain hop-picking machine patents listed therein. The plaintiff alleges non-payment of royalties and seeks judgment for the minimum annual royalties together with an accounting to determine any additional sum that may be due. The defendants entered a denial and plead certain affirmative defenses.

The facts, in the main, are not disputed. The plaintiff entered into a licensing contract with the defendant Brulotte on August 10, 1948, which contract was to run to the completion of the 1958 harvest season. The defendant Charvet's agreement commenced on January 31, 1951, and extended to the completion of the 1960 harvest season. Both contracts are essentially the same in content and listed twelve patents together with "other patents pending".

It is admitted that only six or seven of the patents listed were incorporated into the machines here in question and that all of those patents expired on or before 1957. Of the patents pending at the time the agreements were entered into it is agreed that one patent (Exhibit 22) was pending as to both defendants at the time the contracts were entered into and that said patent does not expire until 1969. One patent (Exhibit 23) was pending as to Brulotte but not as to Charvet and is as yet unexpired. One patent (Exhibit 25) was pending as to Charvet but not as to [fol. 183] Brulotte and it is unexpired. These patents pending were available for use by the defendants but the record is inconclusive as to whether or not they were in fact used or incorporated into the machines. Three patents were declared invalid by lower Federal Courts. One of the patents declared invalid was a method patent (Exhibit 6) and another patent (Exhibit 15) was admittedly never incorporated into the machines. The other patent declared invalid (Exhibit 23) was a patent pending as to Brulotte only.

It is further admitted that the contracts were signed as alleged in the complaints and that neither defendant paid any royalties after the 1952 season. The defendant Brulotte testified that he used the machine from the period 1953 to 1958, both inclusive. The defendant Charvet stated that he did not use the machine after 1952, at which time he removed his hopyard and that in 1958-1959 he raised hops but did not use the machine listed in the contract.

It is further agreed that the form contracts used covered portable hop-picking machines and that the contracts were uniform with other contracts used whether they were three-party contracts or two-party contracts. The contracts purport to pass title to the machines to the defendants but provide that they shall not be used except under licenses specified in the contracts which also provide for payment of royalties. See sections 6, 7 and 8 of contracts (Exhibits 1 and 3).

The affirmative defenses of the defendants raise the following issues: (1) Are the actions barred by the statute of limitations? (2) Is there a failure on the part of the plaintiff to comply with the terms of the contract? (3) Is [fol. 184] there an eviction or failure of consideration because of invalidity of three patents? (4) Is the plaintiff guilty of fraud? (5) Are the contracts void or unenforceable as against public policy because of attempted restrictions in the use of the machines after sale? (6) Are the contracts void as against public policy or unenforceable because of misuse of patent rights by the plaintiff in: (a) tying-in patents not in use in the machines; (b) extending licenses beyond terms of patents, and (c) restricting free use of machine by having patents on relatively inconsequential portion of the total machine.

Besides the above affirmative defenses the defendants argue that the royalties cannot be collected because (1) the machines were not used, and (2) because the contracts were terminated by the defendants' default in paying the royalties.

I find no substance in the argument of the defendants that the contracts were terminated by the default of the defendants, since it appears to me that under the language of the contracts contained in paragraph six thereof, it was

the intent of the parties that the contracts could only be cancelled at the election of the plaintiff in the event of default or payment of royalties. A party should not be allowed to take advantage of his own default unless the language in the contract is clear and specific as to such right. This contract provides that the right to use the machines is conditioned upon full performance by the licensee. The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term. If defendants' contentions are meritorious then the contract would be cancellable at will of [fol. 185] the defendants. As stated, I am sure that is not what was intended. I, therefore, hold that the contracts herein were not terminated by the defaults of the defendants.

I also find there is no merit in the defendants' contentions that the royalties cannot be collected while the machine is not in use. That argument flies in the face of the whole intent and wording of the contracts. If that argument were meritorious then the parties certainly would not have fixed minimum royalties.

I also find no merit in the first four affirmative defenses. The first, second and fourth affirmative defenses were not sustained by the evidence and were not argued, and therefore, I assume the defendants found no comfort in them. As to the third affirmative defense, that is, the defense of eviction or failure of consideration, it seems to me there is likewise lack of evidence. The licenses here cover not one single patent but several, and were *non-exclusive*. There is no evidence in the record that the three patents which were declared invalid were the "substance" of the agreement or had any effect whatsoever on the operation of the machines or caused the defendants any concern, much less *evict* them from the use of the machine. It is admitted that at least one of the patents (Exhibit 7), was for a total hop-picking machine and this patent was not declared invalid. It is the general rule that courts will not inquire into the adequacy of consideration as long as some consideration exists. It is evident that there was some consideration here and the defendants have not sustained the

burden of proving that it was insufficient consideration any more than they have sustained the burden of proving that [fol. 186] they have been evicted from the use of the machines. The defendants got what they bargained for and may not complain about inconsequential matters. See *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.* (C. A. 1), 176 Fed. 2d 799. See also *North Drive-in Theatre Corp.* v. *Park-In Theatres* (C. A. 10), 248 F. 2d 232.

The next contention made by the defendants' fifth affirmative defense is that the contracts are void as against public policy because of attempted restrictions in the use of the machines after sale. The defendants contend that the plaintiff cannot sell the machines and at the same time control the right to use the machines. In other words, that at the time of the sale the machine passed beyond the monopoly of the plaintiff. The cases cited by defendants, however, deal with the attempts on the part of the patentee to control the resale prices of patented articles, or in some other way to restrain or limit the use of the articles. None of those cases hold that a contract is invalid simply because it requires the payment of royalties after passing of bare title.

Our Supreme Court in the case of *Thys* v. *State*, 31 Wn. 2nd 739, held that the royalties provision under this same type of contract kept the sale from being an "unconditional" sale since it conveyed bare title without right of use and that the royalties were in effect a part of the purchase price. I think that case and the cases cited therein are conclusive in favor of the plaintiff in this matter even though this question was not squarely presented in the former *Thys* case. Certainly, it is a recognition by the court that this is not an unconditional sale. Furthermore, the cases cited by the defendants were mostly patent in-[fol. 187] fringement cases or cases brought under the anti-trust laws and concerned attempts by patentees to clearly control the use or resale of patented articles after they had passed unconditional titles. They do not say that a patentee may not collect royalties as a part of the sale and as a condition thereto.

The matters chiefly relied on by the defendants, however, are contained in their sixth affirmative defense. They argue that the contracts are void as against public policy or unenforceable because of misuses of patent rights in three particulars, namely: (a) tying-in patents not used in the machines (b) extending licenses beyond terms of patents (c) restricting free use of the machines by having patents on a relatively inconsequential portion of the total machines. The allegations of misuse contain in (c) above are clearly not sustained by the evidence. As stated before, at least one patent is for a whole hop picking-machine. Certainly, there is no evidence upon which a court could find that the patents used are "inconsequential".

As to items of misuse (a) and (b), the defendants principally rely upon the case of *American Securit Company* v. *Shatterproof Glass Corporation* (C. A. 3), 268 F. 2d 769 (1959), wherein the court held that mandatory patent packaging licensing constituted a misuse of patents and also held that a provision in a licensing agreement which provides that the agreement should continue in full force and effect to the expiration of the last patent to expire constituted patent misuse by extending the payment of royalties beyond the expiration date of some of the patents. On the other hand, as to item (a), the plaintiff relies mainly upon [fol. 188] the case of *Automatic Radio Manufacturing Company* v. *Hazeltine Research Inc.*, 77 F. Supp. 493, affirmed (C. A. 1), 176 F. 2d 799, affirmed 339 U. S. 827, 94 L. ed. 1312.

The *American Securit* case is distinguishable from the case here under consideration as to item (a) in that the patentee in that case did not desire to license the licensee under any of the patents unless it licensed it under all of them. In other words, in that case it appeared that the licensee was *compelled* to accept a package of patents whether it needed some of them or not, and that, therefore, the unwanted patents were tied in with the ones that were really wanted and did not stand on their own feet. The court held that each monopoly must stand on its own footing and cannot be conditioned upon the acceptance of another patent. There is no evidence in the record here that the defendants, or either of them, had sought and been re-

fused a license covering less than those listed in the agreement or that the plaintiff refused to grant a license under any one or more of its patents to anyone who refused to take a license under all of them. The plaintiff was merely licensing the right to use a machine and threw in all of the patents it had, regardless of whether they were being used in the machine at the present time or not.

The agreements here were essentially for the sale and use of hop-picking machines and as stated before, the defendants received just what they bargained for. They received the machines and were never disturbed in their use of them. If any patents were included which were not needed in the use of the machines, they were mere surplusage and there is no evidence from which the court might conclude that [fol. 189] any special value was placed upon any of the patents which were not incorporated in the machines. If the court could find from the evidence that the defendants were paying for something that they did not need then a different matter would be presented. In any event, the contracts do not become unenforceable merely because the licensees in a particular year do not happen to utilize a particular patent. The licensees had the right to use all of the patents and if they choose not to use them that is their own business. It does not change the fact that they had a *right* to use them, and that is all they bargained for. As a matter of fact, however, in this case the listings of the various unused patents seem to me to be extremely inconsequential since as stated before, the defendants received just what they bargained for, namely, the title to and the right to use a certain hop-picking machine.

Undoubtedly, the *Securit* case enlarged the misuse doctrine to cases where the use of one patent is used to strengthen the licensing appeal of another patent. The doctrine should not apply, however, where the whole package pertains or is necessary to the production of a *single product* for which the licensee is bargaining. In such a case the licensee can only complain when the package is not large enough—not when it is too large. The licensee knows exactly what he wants and is getting, viz., a certain product or machine together with the free and uninterrupted use thereof, and if he gets that how can he complain that

he has been given too many patents, unless he can show that the additional patent cost him extra. There has been no such showing in this case. All parties knew what was [fol. 190] being transferred, all knew the price, and all agreed. No evidence has been adduced to show any mandatory tying-in of unwanted patents or to show any special or additional charges for unused or unwanted patents. The defendants have, therefore, not sustained the burden of proof as to item (a).

As to item (b), i.e., the extending of the life of the licenses beyond the life of the listed patents, the defendants rely solely on the *Securit* case. In the instant case the contracts (Exhibits 1 and 3) provide that the term of the license shall be from the date of the agreement until the end of a certain year's harvest "irrespective of the date of expiration of any of the letters patent hereinabove listed". As a matter of fact, all of the patents listed and used in the machines expired in 1955 or 1957. The patents pending (only the patents pending at time contracts were entered into are of significance, viz., Exhibits 22, 23 and 25) were not expired and two of such patents pending apply to each party defendant. Therefore, it may be said that most, but not all patents contemplated by the parties had expired prior to the end of the licensing terms. The *Securit* case holds that failure to provide for reduction in package royalties upon the expiration of individual patents contained in the package constitutes misuse. Such a holding, therefore, requires that each patent, if the licensee so desires, be priced and licensed individually even though pertaining to a single product. Such a requirement makes sense if each patent pertains to some separate process or product, since each should stand on its own footing. But where the parties are dealing in regard to *one* product, such as a hop-picking machine, which is their sole concern, [fol. 191] then the requirement of a separate listing puts an undue and meaningless burden on both licensee and patentee by dividing and dissipating their rights and by making a simple thing extremely complicated, tricky, and difficult to understand by the ordinary layman. In any event, I think it clear that the great majority of cases hold that the following of such a requirement is not necessary

to avoid misuse. The defendants here knew or were charged with the knowledge of the expiration dates of the patents, but nevertheless agreed to extend the royalty payments over a longer term than most of the patents, which arrangement was as much or more for their own benefit as for the plaintiff's benefit. It seems to me that they cannot now complain of unclean hands caused by an *anticipated* condition brought on by operation of law. A majority of the courts so hold. See *Six Star Lub. Co.* v. *Morehouse* (Colo.), 74 Pac. 2d 1239; *H. P. M. Develop. Corp.* v. *Watson Stillman Co.,* 71 Fed. Supp. 906; *Pressed Steel Car Co.* v. *U. P. Ry. Co.* (C. A. 2), 270 Fed. 518; *E. R. Squibb & Sons* v. *Chem. Foundation* (C. A. 2), 93 Fed. 2d 475; *Chic. Pneumatic Tool Co.* v. *Ziegler* (C. A. 3), 151 Fed. 2d 784; *Hope Basket Co.* v. *Product Advancement Corp.* (C. A. 6), 187 Fed. 2d 1008; 69 C. J. S. 780, section 252 and section 262.

There was no misuse of patents and therefore defendants cannot prevail on their sixth affirmative defense.

The plaintiff is therefore entitled to recover against both defendants as prayed for in the complaints.

Lloyd L. Wiehl, Judge.

[fol. 192]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

AFFIDAVIT OF WALTER C. BRULOTTE

State of Washington,
County of Yakima, ss.:

Walter C. Brulotte, being first duly sworn, on oath deposes and says: He is one of the defendants above named and makes this affidavit pursuant to the order of Court of October 6, 1961.

The hops harvested by affiant with Thys portable hop-picking machine No. 44-L-59 for the years 1953 through 1958, inclusive, in units of 200-pound bales are as follows:

1953	—	290
1954	—	310
1955	—	190
1956	—	205
1957	—	60
1958	—	125

Walter Brulotte.

Subscribed and sworn to before me this 12 day of October, 1961.

E. F. Velikanje, Notary Public in and for the State of Washington, residing at Yakima.

Proof of service (omitted in printing).

[fol. 193] Reporter's Certificate to foregoing transcript (omitted in printing).

[fol. 195]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Defendants.

ORDER DENYING MOTION TO RECONSIDER AND FOR NEW TRIAL—September 21, 1961

This Matter having duly come on for argument upon the defendants' motion to reconsider the memorandum opinion of the court herein or in the alternative for a new trial, and the court having heard the arguments of counsel and being duly advised in the premises;

Now, Therefore, It Is Hereby Ordered that the defendants' said motion to reconsider the memorandum opinion of the court and the defendants' motion for a new trial and each of them are hereby denied.

Done In Open Court this 21st day of September, 1961.

Lloyd L. Wiehl, Judge.

Presented by:

Cheney & Hutcheson, By: Elwood Hutcheson, Attorneys for Plaintiff.

[fol. 196] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Defendants.

FINDINGS OF FACT AND CONCLUSIONS OF LAW—Filed October 6, 1961

These two consolidated causes having heretofore duly come on for trial together before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys Cheney & Hutcheson, and the defendants being present in person and by their attorneys, Velikanje & Moore and Charles C. Countryman, and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for new trial;

Now, Therefore, the court does hereby make the following

Findings of Fact

1.

That at all times herein mentioned, plaintiff herein, Thys Company, was, and now is, a corporation duly or- [fol. 197] ganized and existing pursuant to the laws of the State of California, and that it has paid all license fees due to the State of Washington.

2.

That at all times herein mentioned the defendants Walter C. Brulotte and Cecilia Brulotte were and now are husband and wife and as such constitute a marital community and reside in Yakima County, Washington. That at all times herein mentioned, the defendants Raymond Charvet and Blanche Charvet were and now are, husband and wife and as such constitute a marital community and reside in Yakima County, Washington.

3.

That on August 10, 1948, for valuable consideration the plaintiff and the defendant Walter C. Brulotte for and on behalf of said marital community entered into a written contract whereby said defendants purchased one certain Thys portable hop picking machine No. 44-L-59, and the plaintiff, as the licensee and holder of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1958 hop harvest at the rate of \$3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum royalty of not less than \$500.00 plus tax per year. A copy of said contract was admitted in evidence as plaintiff's Exhibit No. 1 herein and the same is incorporated by reference herein. At all times subsequent thereto said hop picking machine has been in the possession and control of said defendants.

[fol. 198] 4.

That on or about the 31st day of January, 1951, for valuable consideration, the plaintiff and the defendant Raymond Charvet, for and on behalf of said marital community entered into a written contract whereby said defendants purchased one certain Thys portable hop picking machine No. 44-L-132, and the plaintiff, as the Licensee and hold of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1960 hop harvest at the rate of $3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum royalty of not less than $500.00 plus tax per year. A copy of said contract was admitted in evidence as plaintiff's Exhibit No. 3 and the same is incorporated by reference herein. At all times subsequent thereto said hop picking machine has been in the possession and control of said defendants.

5.

That repeated demands have been made by the plaintiff upon both the defendants Brulotte and Charvet for the payment of hop picking machine royalties pursuant to said written contracts, but no payment whatever has been made by either of said defendants for any year subsequent to 1952, and prior to the trial of these actions said defendants failed to furnish the plaintiff with any information as to the quantity of hops picked with said picking machines or either of them, and the plaintiff had no knowledge or information with reference thereto. Under state law as construed by the supreme court there was also payable by the defendants a state sales tax in the sum of [fol. 199] 4 per cent of said royalties payable annually. Under said agreements there was a minimum annual royalty in the sum of at least $520.00, including said state sales tax. Plaintiff has duly performed all of the terms and conditions of said contract by it to be performed.

6.

Said Charvet's hop picking machine has not been used or operated since 1952. The defendants Charvet are therefore liable for said annual minimum royalty in the sum of $520.00 per year including said state sales tax, which became due and payable on October 15th of each year under said contract commencing October 15, 1953, for each year to and including 1959.

7.

The defendants have failed to sustain the burden of proof as to each and all of the affirmative defenses herein. Each of these actions was commenced prior to October 15, 1959. Neither of the parties herein ever gave the other any oral or written notice of termination or cancellation of said license-royalty contracts or either of them; and the plaintiff never elected to terminate said contracts by reason of any default on the part of the defendants. It is admitted in the pleadings that seven and only seven of the twelve of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop picking machines, and all of those patents expired on or before 1957. Of the patents pending at the time the agreements were entered into one patent (Exhibit 22) was pending when both defendants' contracts were entered into and said patent does not expire until 1969. One patent (Exhibit 23) [fol. 200] was pending as to Brulotte but not as to Charvet and is as yet unexpired; and one patent (Exhibit 25), was pending as to Charvet but not as to Brulotte and is as yet unexpired. Three patents were declared invalid by lower federal courts, namely Exhibit 6, a method patent, Exhibit 15 which was never incorporated into defendants' portable hop picking machines, and Exhibit 23 which was not listed by number in these contracts and was subsequently issued and was a patent pending as to Brulotte but not as to Charvet. There has been no disturbance or interference with the defendants' continued possession and use or right of use of said hop picking machines, and the defendants have not been evicted in the enjoyment of their privileged use of said hop picking machines under said non-exclusive

license contracts, and there has been no eviction or failure of consideration with reference thereto. Plaintiff has not been guilty of any fraud or misrepresentation to the defendants with reference thereto. Said contracts (Exhibits 1 and 3) were form contracts and covered said portable hop picking machines and were uniform with other contracts used by the plaintiff whether they were three-party or two-party contracts. The plaintiff was not guilty of any misuse of its patent rights.

8.

Each of said contracts provides that defendants agreed to pay plaintiff's reasonable attorneys' fees in any court litigation. That the sum of $1,500.00 is a reasonable sum to be allowed the plaintiff herein as attorneys' fees in the Brulotte case. That the sum of $1,500.00 is a reasonable sum to be allowed the plaintiff herein as attorneys' fees in the Charvet case.

From the Foregoing Findings of Fact the court now makes the following

[fol. 201] Conclusions of Law

1.

That under the law and the evidence there is no merit in any of the defendants' affirmative defenses herein. These actions are not barred by the statute of limitations. Said contracts were not terminated by the defaults of the defendants. The defendants have not been evicted in the enjoyment of their privileged use of said hop picking machines, and there has been no eviction or failure of consideration. There has been no fraudulent misrepresentation with reference thereto on the part of the plaintiff. There was no failure on the part of the plaintiff to comply with the terms of said contracts. Said royalty contracts are not void, against public policy, or unenforceable, either because of attempted unlawful restrictions in the use of the machines after sale, or because of misuse of patent rights by the plaintiff or otherwise. There has been no misuse of its patent rights by the plaintiff, and the plaintiff has not come into court herein with unclean hands.

2.

That the plaintiff is entitled to have entered in the Brulotte case an order requiring the defendants therein to promptly make and furnish an accounting with reference to the quantity of hops picked during said period with said hop picking machine and the amount of royalties due and payable therefor; and thereafter that judgment and decree be entered in said Brulotte case herein accordingly in favor of the plaintiff and against the defendants therein.

3.

That by reason of the fact that the testimony heretofore shows without dispute the facts hereinabove stated in para- [fol. 202] graph 6 of the findings of fact with reference to the use of the Charvet machine, a further accounting with reference to the extent of use of the Charvet machine would be useless and unnecessary.

4.

That the plaintiff is entitled to have and recover judgment against the defendants in the Charvet case for the said minimum agreed royalty including state sales tax, irrespective of the use or non-use of said machine, in the sum of $520.00 per year for each of said years from 1953 to and including 1959 to-wit the total principal sum of $3,640.00 together with interest thereon at 6 per cent per annum from October 15th of each of said years commencing October 15, 1953 upon each of said annual royalty payments, said interest to this date being the total sum of $1,092.00, or a total amount of principal and interest as of this date in the sum of $4,732.00 together with interest thereon at 6 per cent per annum from October 15, 1961 until paid and together with plaintiff's reasonable attorney's fees in said case in the sum of $1,500.00 and together with plaintiff's costs and disbursements incurred in the Charvet case hereinafter to be taxed.

Done In Open Court this 6th day of October, 1961.

Lloyd L. Wiehl, Judge.

Presented by:

Cheney & Hutcheson, By Elwood Hutcheson, Attorneys for Plaintiff.

[fol. 203] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

SUPPLEMENTAL FINDINGS OF FACT AND CONCLUSIONS OF LAW—Filed October 20, 1961

This Cause having heretofore duly come on for trial before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys, Cheney & Hutcheson, and the defendants being present in person and by their attorneys, Velikanje & Moore and Charles C. Countryman, and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for new trial; and the court having heretofore entered its interlocutory order of accounting herein and the defendants having thereafter filed his affidavit pursuant thereto and the same having been accepted by the plaintiff without the necessity of any further accounting hearing herein;

Now, Therefore, the court does hereby make the following

Supplemental Findings of Fact

1.

Paragraphs 1, 2, 3, 5, 7, and 8 of the findings of fact and conclusions of law entered in consolidated causes No. 43538 and 43602 in the above entitled court on October 6, 1961 are repeated, reaffirmed and incorporated by reference herein.

[fol. 204] 2.

The hops harvested by the defendant Walter C. Brulotte with his Thys portable hop picking machine No. 44-L-59 for the years 1953 through 1958, inclusive, in units of 200-pound bales were as follows.

1953—290
1954—310
1955—190
1956—205
1957— 60
1958—125

From the foregoing supplemental findings of facts the court now makes the following

Conclusions of Law

1.

Paragraph 1 of the conclusions of law entered in the consolidated causes No. 43538 and 43602 in the above entitled court on October 6, 1961 is repeated, reaffirmed and incorporated by reference herein.

2.

That the plaintiff is entitled to have and recover judgment against the defendants in the Brulotte case in the sum of $1,005.34 together with interest thereon at 6 per cent per annum from October 15, 1953 until paid, plus $1,074.66 together with interest thereon at 6 per cent per annum from October 15, 1954 until paid, plus $658.66 together with interest thereon at 6 per cent per annum from October 15, 1955 until paid, plus $710.66 together with in-

terest thereon at 6 per cent per annum from October 15, 1956 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1957 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1958 until paid; each of said principal amounts including 4 per cent state sales tax; or [fol. 205] the total principal sum of $4,489.32 plus total interest in the sum of $1,602.64 computed to October 15, 1961, or the total sum of $6,091.96, together with interest on said last mentioned sum at 6 per cent per annum from October 15, 1961 until paid, and together with plaintiff's reasonable attorneys' fees in this action in the sum of $1,500.00 and together with plaintiff's costs and disbursements herein to be taxed.

Done In Open Court this 20th day of October, 1961.

Lloyd L. Wiehl, Judge.

Presented by:

Cheney & Hutcheson, By Elwood Hutcheson, Attorneys for Plaintiff.

OK As to Form:

Charles C. Countryman, Of Counsel for Defendants.

[fol. 206] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

JUDGMENT—October 20, 1961

This Cause having heretofore duly come on for trial before the undersigned judge of the above entitled court sit-

ting without a jury, and the plaintiff being present by its president and by its attorneys, Cheney & Hutcheson, and the defendants being present in person and by their attorneys, Velikanje & Moore and Charles C. Countryman, and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for new trial; and the court having heretofore entered its interlocutory order of accounting herein and the defendant having thereafter filed his affidavit pursuant thereto and the same having been accepted by the plaintiff without the necessity of a further accounting hearing herein, and the court having heretofore duly made and entered its supplemental findings of fact and conclusions of law;

Now, Therefore, It Is Hereby Ordered, Adjudged and Decreed that the plaintiff herein Thys Company, a corporation, does hereby have and recover judgment against the defen- [fol. 207] dant Walter C. Brulotte and the marital community composed of Walter C. Brulotte and Cecilia Brulotte, husband and wife, in the sum of $1,005.34 together with interest thereon at 6 per cent per annum from October 15, 1953 until paid, plus $1,074.66 together with interest thereon at 6 per cent per annum from October 15, 1954 until paid, plus $658.66 together with interest thereon at 6 per cent per annum from October 15, 1955 until paid, plus $710.66 together with interest thereon at 6 per cent per annum from October 15, 1956 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1957 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1958 until paid; each of said principal amounts including 4 per cent state sales tax; or the total principal sum of $4,489.32 plus total interest in the sum of $1,602.64 computed to October 15, 1961, or the total sum of $6,091.96, together with interest on said last mentioned sum at 6 per cent per annum from October 15, 1961 until paid, and together with plaintiff's reasonable attorneys' fees in this action in the sum of

$1,500.00 and together with plaintiff's costs and disbursements herein to be taxed.

Done In Open Court this 20th day of October, 1961.

Lloyd L. Wiehl, Judge

Presented by:

Cheney & Hutcheson, By Elwood Hutcheson, Attorneys for Plaintiff.

OK As to Form:

Charles C. Countryman, Of Counsel for Defendants.

[fol. 208]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, Plaintiff,

vs.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Defendants.

NOTICE OF APPEAL—Filed November 17, 1961

To: Thys Company, a corporation, Plaintiff; and

To: Cheney & Hutcheson, attorneys for Plaintiff:

You, and Each of You, are hereby notified that the defendants, Walter C. Brulotte and Cecilia Brulotte, his wife, feeling themselves aggrieved, do hereby appeal to the Supreme Court of the State of Washington from the judgment signed by the Court on October 20, 1961, and filed with the Clerk of Court on October 20, 1961, wherein and whereby the plaintiff, Thys Company, a corporation, was awarded judgment against the defendants for the sum of $6,091.96, together with interest on said sum at 6% per

annum from October 15, 1961, until paid; and together with plaintiff's attorneys' fees in the sum of $1,500.00; and together with plaintiff's costs and disbursements incurred; and also appeal from the order signed and filed on the 21st day of September, 1961, which order denied defendants' motion to reconsider memorandum opinion or in the alternative for a new trial.

Dated at Yakima, Washington, this 3d day of November, 1961.

Velikanje & Moore, By Charles C. Countryman, Attorneys for Defendants.

Proof of Service (omitted in printing).

[fol. 209] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON

IN AND FOR YAKIMA COUNTY

No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Defendants.

JUDGMENT—October 6, 1961

This cause having heretofore duly come on for trial before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys Cheney & Hutcheson, and the defendants being present in person and by their attorneys Velikanje & Moore and Charles C. Countryman and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants'

motion for reconsideration and motion for new trial, and the court having heretofore duly made and entered its findings of fact and conclusions of law;

Now, Therefore, It Is Hereby Ordered, Adjudged and Decreed that the plaintiff herein Thys Company, a corporation, does hereby have and recover judgment against the defendant Raymond Charvet and the marital community composed of Raymond Charvet and Blanche Charvet, husband and wife, in the total principal amount of $3,640.00 together with accrued interest thereon to this date in the total sum of $1,092.00 or the total amount of principal and interest in the sum of $4,732.00, together with interest thereon at 6 per cent per annum from October 15, 1961 until paid and together with plaintiff's reasonable attorneys' fees in the sum of $1,500.00 and together with plaintiff's costs and disbursements herein to be taxed.

[fol. 210] Done In Open Court this 6th day of October, 1961.

Lloyd L. Wiehl, Judge

Presented by:

Cheney & Hutcheson, By Elwood Hutcheson, Attorneys for Plaintiff.

[fol. 211] [File endorsement omitted]

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY
No. 43602

THYS COMPANY, a corporation, Plaintiff,

vs.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Defendants.

NOTICE OF APPEAL—Filed November 3, 1961

To: Thys Company, a corporation, Plaintiff;
and

To: Cheney & Hutcheson, attorneys for Plaintiff:

You, and Each of You, are hereby notified that the defendants, Raymond Charvet and Blanche Charvet, his wife, feeling themselves aggrieved, do hereby appeal to the Supreme Court of the State of Washington from the judgment signed by the Court on the 6th day of October, 1961, and filed with the Clerk of Court on the 6th day of October, 1961, wherein and whereby the plaintiff, Thys Company, a corporation, was awarded judgment against the defendants for the sum of $4,732.00, together with interest thereon at 6% per annum from October 15, 1961, until paid; and together with $1,500.00 for plaintiff's attorneys' fees; and together with plaintiff's costs and disbursements incurred; and also appeal from the order signed and filed on the 21st day of September, 1961, which order denied defendants' motion to reconsider memorandum opinion or in the alternative for a new trial.

Dated at Yakima, Washington, this 3d day of November, 1961.

Velikanje & Moore, By Charles C. Countryman, Attorneys for Defendants.

Proof of Service (omitted in printing).

[fol. 212]

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

No. 36357

Department One

THYS COMPANY, a corporation, Respondent,

v.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Appellants.

THYS COMPANY, a corporation, Respondent,

v.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Appellants.

OPINION—Filed June 6, 1963

This is a suit for royalties claimed due under sale and licensing contracts covering certain portable hop-picking machine patents listed therein. The trial court awarded judgment to the plaintiff for accrued and unpaid royalties, finding that such royalties were due and owing and that none of the affirmative defenses alleged by the defendants had been established.

Mainly, the defenses urged by the defendants on appeal relate to the validity of the licensing contracts. It is contended that the contracts were illegal because (1) they [fol. 213] placed restrictions on the subsequent free use of the patents after they were sold, (2) they conditioned the grant of a license on some patents on acceptance of a license on a larger group of patents, (3) they licensed the use of patents beyond the 17-year period of monopoly granted by the sovereign, and (4) they violated the antitrust laws of the United States. It is also contended that the contracts were terminated when the defendants first

failed to pay royalties when they became due. For a last defense, the defendants allege that they were not obligated to pay royalties for the years when the machines were not in use.

Before discussing these contentions, it will be well to describe the contracts under consideration in this action and the facts leading up to the litigation.

The plaintiff Thys Company, of which Mr. Edouard Thys, an inventor, was and is the president, holds numerous duly issued patents on mechanical hop-picking machines. The defendants are hop farmers who purchased portable hop-picking machines from sellers other than the plaintiff. In connection with the purchase of these machines, which embodied devices patented by the plaintiff, each defendant agreed to pay the plaintiff royalties for the use of his machine for a period which was to end 17 years after the date the machine was first sold by the plaintiff. The royalties were to be paid at the rate of $3.33⅓ per two hundred pounds of hops harvested with the machines, and in any event a minimum royalty of $500 per year was to be paid for the use of each machine.

Under the terms of the licensing provisions of the contract, the defendants were entitled to use the machines and to make use of any of the patents which were owned by the plaintiff, as well as patents pending on hop-picking devices [fol. 214] and methods, all of which were listed in the contracts, so long as they abided by the terms of the contracts. Not all of the patented items were used in the machines, and it was the purpose of the provision licensing use of all the patents to enable the purchasers to utilize the other patented items if they so desired without being obliged to pay additional royalties.

There was an agreement on the part of the defendants to keep records of the amount of hops harvested and to render annual accountings to the plaintiff. The defendants also agreed to keep the machines in good repair during the term of the licenses, and to keep them insured. The plaintiff agreed to furnish replacement parts when they were in stock. There was an agreement not to assign the contract or to allow the machines to become subject to any lien or encumbrance other than liens for current taxes, without

the consent of the plaintiff. The plaintiff agreed that such consent should not be unreasonably withheld.

In each contract, there were provisions that failure to enforce a provision would not operate as a waiver of the right to require subsequent strict performance; that time was of the essence of the contract; that a discount would be allowed for prompt payment of royalties; that the defendants should pay reasonable attorneys fees to plaintiff in the event legal action should become necessary to enforce the terms of the contract; and that the terms of the contract comprised the entire agreement between the parties. The defendants also conceded the validity of any patent licensed in the contracts.

The defendant Brulotte purchased his machine in 1948; his obligation to pay royalties extended through the 1958 harvest. The defendants Charvet purchased their machine in 1951 and agreed to pay royalties until the completion of the 1960 harvest. The patents listed in the contracts ex-[fol. 215] pired at varying dates, some before the end of the period during which royalties were required and some after that period.

No royalties were paid by either party after the 1952 harvest season. Brulotte used his machine until 1958, but the Charvets did not use their machine after 1952. Apparently, these defendants purchased stationary machines when they stopped using the portable machines, finding them more satisfactory.

No error is assigned to the findings of fact. All of the errors assigned pertain to the interpretation and effect of the contracts. We will deal with these in the order in which they are listed at the beginning of this opinion.

(1) The first contention is that these royalty contracts embodied attempts on the part of the plaintiff to control the use of patented articles after they were sold. Numerous authorities are cited which hold that the sale of a patented article by one holding the patent, or a license to use the patent, puts the patented article beyond the reach of the monopoly conferred by the patent. But in this case, the patented articles were not sold by the patent holder or his licensee. Rather, bare title to the manufactured article was

sold by the manufacturer at the time of the first sale, and the right to use the article was licensed to the purchaser by the patent holder. As the United States Supreme Court said in *United States* v. *Masonite Corp.*, 316 U. S. 265, 86 L. Ed. 1461, 62 S. Ct. 1070,

". . . The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

Under the contracts involved in this action, the manufacturer was paid for the making of the machines, plus a reasonable profit, and conveyed the title; the patentee, on the [fol. 216] other hand, agreed to take his remuneration in the form of royalties, payable over a period of years, which was to the advantage of the purchaser, who was enabled to pay for the use of the machine over a long period of time. There was no reward to the patent owner other than the royalties payable under the contracts. Under the rule laid down in the *Masonite* case, then, there was no such a disposition of the machines when these contracts were entered into, that it could fairly be said that the plaintiff, the patentee, had received his reward for the use of the machines. That reward would not be received until the final royalty payments were made.[1] Consequently, such control as he exercised over the use of the machines during the period when royalties were owed was within the monopoly granted him by the sovereign when the patents were issued.

(2) In regard to the contention that the contracts are illegal because they condition the grant of a license on some patents on acceptance of a license on a larger group of patents, the complete answer is that this is simply not the fact. The contracts do not require the defendants to take a license on all or none of the patents held by the plaintiff; they simply give them a license to use as many of the patented devices or methods as they choose, whether or not

[1] This holding is in accord with the construction which this court gave to identical licensing contracts, for tax purposes, in the case of *Thys* v. *State*, 31 Wn. (2d) 739, 199 P. (2d) 68, cert. den. 337 U. S. 917, 93 L. Ed. 1726, 69 S. Ct. 1158.

they were incorporated in the machines when they were purchased.

None of the authorities cited by the defendants holds a licensing contract of this type invalid. A contract with a similar provision was upheld in the leading case of *Automatic Radio Co.* v. *Hazeltine,* 339 U. S 827, 94 L. Ed. 1312, 70 S. Ct. 894. There a radio research organization entered [fol. 217] into a licensing agreement with a manufacturer of radio broadcasting receivers, for royalties amounting to a small percentage of the manufacturer's selling price of complete radio broadcasting receivers, whereby it was given the right to use any or all of the patentee's 570 patents and any others which it might acquire. In that case, in an effort to avoid the obligation to pay royalties, the manufacturer made the same contention that is made here, that the contracts were invalid because they "conditioned" the licensing of the use of some patents on the acceptance of others. The court dismissed this contention summarily, remarking that there was no showing in the record that this was the case. The court approved the district court's characterization of the licensing agreement as "essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties."

In this case, the trial court did not find, and the contracts in themselves do not reveal that there was any conditioning of the grant of a license to use the machines on an acceptance of a license to use other methods and devices not at that time embodied in the machines. We need not decide whether, if there had been such a condition, it would have rendered the contracts illegal.

(3) The next contention is that the contracts were unenforcible because they licensed the use of patents beyond the 17-year period of monopoly granted by the sovereign. *American Security Co.* v. *Shatterproof Glass Corp.,* 268 F. (2d) 769, is cited in support of that proposition. In that case, the court found that a patentee had refused to grant licenses on patents which the manufacturer had desired to use unless the manufacturer would accept other licenses

[fol. 218] and held that this was a misuse of patents.[2] As a consequence, the patentee was denied recovery in its patent infringement suit. The court then went on to say that a provision that the licensing agreement should continue in full force and effect until the expiration of the last of the patentee's licenses constituted a misuse of patent. No authorities are cited in the opinion, and there is no discussion of the theory that the court used in arriving at this conclusion. It is, in any event, dictum.

The defendants also cite *Prestole Corp.* v. *Tinnerman Products, Inc.*, 271 F. (2d) 146, and *Tinnerman Products, Inc.* v. *George K. Garrett Co.*, 185 F. Supp. 151. These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period.

The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. (2d) 475; *Starke* v. *Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882; *Tate* v. *Lewis*, 127 F. Supp. 105; *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906; and *Six Star Lubricants Co.* v. *Morehouse*, 101 Colo. 491, 74 P. (2d) 1239. In the latter case, where an attempt was made to avoid the obligation to pay royalties because the contract called for their payment beyond the expiration date of the patent, the court said:

[fol. 219] "There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents. 48 C. J. 277, § 451; *Mitchell* v. *Hawley*, 16 Wall. (U. S.) 544, 21 L. Ed. 322; *Pressed Steel Car Co.* v. *Union P. R.R. Co.*, 270 F. 518. . . .

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[2] The correctness of that decision is open to serious question, but we do not deem it necessary to discuss it here, inasmuch as the facts of that case differ substantially from those in this case.

"Under these circumstances, we do not believe that we should declare, as a matter of law, that the contracts of October 26, 1925, terminated upon the expiration of the patents. . . .

" . . . When the parties entered into the contract they knew of the expiration date of the patents, and if defendant saw fit to contract for royalty beyond such a time, it may not now complain of an anticipated condition brought about by operation of law."

This is the rule which is set forth in Ellis, Patent Licenses, 3d ed., § 109, p. 128.[3]

In this case, when the parties signed their agreements, the instruments showed on their faces that some of the patents would expire before the end of the period during which the payment of royalties was required. It was undoubtedly understood between them that a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent. They agreed that the value of the right to use the patents embodied in the machines was at least $500 per year, for the remaining years of the royalty period. There is no legal or equitable reason why they should not be required to perform their agreement.

(4) The allegation that the contracts violate the antitrust laws of the United States is grounded on the contention that they constitute an abuse of patents, which, as we [fol. 220] have already held, is without merit.

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[3] We are aware of a recent contrary decision in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. (2d) 496 (C. A. 3d 1962). In that case the payment of royalties was required throughout the life of the machines sold. This was held to be a misuse of patents. We may assume that the agreement was enough like those involved in this case to make the rule applicable. We find the reasoning of the earlier cases more appealing, however, and we are not obliged to follow decisions of lower federal courts. *Lamb* v. *Railway Express Agency*, 51 Wn. (2d) 616, 320 P. (2d) 644. It is of interest that the writer of a review of this case in 31 Geo. Wash. L. Rev. 535, observed in a footnote that the agreement involved in the *Hazeltine* case (339 U. S. 827) might be justified by the Court of Appeals for the Third Circuit as a convenient method of payment.

(5) In support of the contention that the contracts were terminated when the defendants ceased to pay royalties, they point to the language of the contracts granting the license:

"... as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose for which said machine(s) was/were designed ..."

and say that this language reveals an agreement that the obligation of both parties should cease in the event of default.

We cannot agree with this interpretation. In regard to this contention, the learned trial judge, in a very able memorandum decision, said:

"I find no substance in the argument of the defendants that the contracts were terminated by the default of the defendants, since it appears to me that under the language of the contracts contained in paragraph six thereof, it was the intent of the parties that the contracts could only be cancelled at the election of the plaintiff in the event of default or payment of royalties. A party should not be allowed to take advantage of his own default unless the language in the contract is clear and specific as to such right. This contract provides that the right to use the machines is conditioned upon full performance by the licensee. The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term. If defendants' contentions are meritorious then the contract would be cancellable at will of the defendants. As stated, I am sure that is not what was intended. I, therefore, hold that the contracts herein were not terminated by the defaults of the defendants."

In cases cited by the appellants, the courts found that the parties had evidenced by their words, agreements that the licenses should terminate on default of the licensees. Such cases are *Mason* v. *Electrol, Inc.*, 292 N. Y. 482, 55 N. E. (2d) 747, *Standard Appliance Co.* v. *Standard Equipment Co.*, 296 Fed. 456, and *Rose* v. *Imbrey*, 37 N. Y. S. (2d) 793. It should be noted that none of the cases involved a licensing agreement pertaining to a manufactured product sold

to the licensee, but rather, all concerned the licensing of patents to manufacturers who might or might not manufacture articles embodying the patents, depending on a number of circumstances. If they failed to use the patents, the [fol. 221] licensor would not be greatly harmed if the contract were terminated, for he could license other manufacturers. But here, if the contracts were to be construed as providing for automatic termination on default of the defendants, the plaintiff would lose his reward for his patents, while the defendants would retain the patented machines. It cannot be supposed that such a result was intended.

Likewise, the contracts involved in the cited cases contained no absolute obligation to pay royalties. The contracts before this court do contain such obligations; according to their language, a minimum royalty is due each year for a definite number of years, regardless of whether hops are harvested. There is no ambiguity, and the trial court correctly so held.

(6) What we have just said disposes of the contention that royalties were not required for years when the machines were not used.

The trial court did not err when it held that none of the affirmative defenses had been established. The judgment is therefore affirmed.

Rosellini, J.

We concur:

Ott, C. J., Hill, J., Hunter, J., Hale, J.

[fol. 222] [File endorsement omitted]

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

No. 36357

Yakima County Nos. 43538 and 43602

THYS COMPANY, a corporation, Respondent,

v.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, Appellants.

THYS COMPANY, a corporation, Respondent,

v.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, Appellants.

REMITTITUR—Filed October 7, 1963

This is to certify that the opinion of the Supreme Court of the State of Washington filed on June 6, 1963, became the final judgment of this court in the above entitled case on October 4, 1963. This cause is remitted to the superior court from which the appeal was taken for further proceedings in accordance with the attached true copy of the opinion.

Pursuant to Rule 55 on Appeal, costs are taxed as follows:

Four Hundred Sixty-eight and 57/100 ($468.57) Dollars in favor of respondent and against appellants and their surety American Surety Company of New York.

The Petition for Rehearing was Denied October 4, 1963.

cc: Court Reporter
Velikanje & Moore
Mr. Charles C. Countryman
Cheney & Hutcheson
Mr. Elwood Hutcheson

In Testimony Whereof, I have hereunto set my hand and affixed the seal of said Court at Olympia, this 5th day of October, A. D. 1963.

William M. Lowery, Clerk of the Supreme Court, State of Washington.

[fol. 226] Clerk's Certificate to foregoing transcript (omitted in printing).

[fol. 227]

SUPREME COURT OF THE UNITED STATES

No. 707—October Term, 1963

WALTER C. BRULOTTE, ET AL., Petitioners,

vs.

THYS COMPANY

ORDER ALLOWING CERTIORARI—February 17, 1964

The petition herein for a writ of certiorari to the Supreme Court of the State of Washington is granted limited to Questions 1 and 2 presented by the petition which read as follows:

"1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public.

"2. Whether it is a misuse or an antitrust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties."

The case is placed on the summary calendar.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. [redacted] 20

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
Petitioner

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,

v.

THYS COMPANY, *Respondent*

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF WASHINGTON

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Washington 36, D. C.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

INDEX

CASES CITED

IN THE

Supreme Court of the United States

October Term, 1963

No.

Walter C. Brulotte and Cecelia Brulotte, his wife

and

Raymond Charvet and Blanche Charvet, his wife,
Petitioner

v.

Thys Company, *Respondent*

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF WASHINGTON

Petitioners pray that a writ of certiorari issue to review the judgment of the Supreme Court of the State of Washington, entered in the above entitled case on October 4, 1963.

CITATIONS TO OPINIONS BELOW

The memorandum opinion of the Superior Court of the State of Washington in and for Yakima County (App. A, *infra,* p. 1a) is unreported. The opinion of the Supreme Court of the State of Washington (Department One) (App. A, *infra,* p. 10a) is reported at 162 Wash. 281, 382 P. 2d 271, 138 U.S.P.Q. 411 (1963).

JURISDICTION

The final judgment of the Supreme Court of the State of Washington (Department One) was entered on October 4, 1963 (App. A, *infra*, p. 20a). A petition for rehearing *en banc* was denied October 4, 1963 (App. A, *infra*, p. 20a). The jurisdiction of this Court is invoked under 28 U.S.C. Section 1257(3).

QUESTIONS PRESENTED

1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public.

2. Whether it is a misuse or an antitrust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties.

3. Whether it is a misuse or an antitrust violation to condition the grant of a license under one patent or group of patents on the acceptance of a license under a group of additional patents and pending applications.

STATUTE INVOLVED

The statutory provisions involved are 35 U.S.C. 154 and 15 U.S.C. §§ 1 and 2, (App. B, *infra*, p. 39a). The case also involves the public policy of the patent laws of the United States as delineated by this Court.

STATEMENT

The cases which are the subject of this petition are actions for the collection of royalties claimed due and payable under certain "sale and licensing contracts". By stipulation between the parties, the cases were consolidated for trial (App. A, *infra,* p. 21a) and for the purposes of appeal to the Supreme Court of the State of Washington (App. A, *infra,* p. 22a).

A. The Federal Questions and How They Arose

In *Scott Paper Company* v. *Marcalus,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) this Court at 326 U.S. p. 255 said:

> "The nature and extent of the legal consequences of the expiration of a patent are federal questions the answers to which are to be derived from the patent laws and the policies they adopt . . .".

Questions 1 and 2, on their face, are concerned with "the legal consequences of the expiration of a patent" and hence "are federal questions the answers to which are to be derived from the patent laws. . . ".

Questions 2 and 3, on their face, involve questions arising under the federal law of patent misuse and under the federal antitrust laws as defined by this Court in such cases as *United States* v. *Loew's, Inc.,* (1963) 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11; *United States* v. *Paramount Pictures, Inc.,* (1948) 334 U.S. 131, 92 L. Ed. 1260; *Ethyl Gasoline Corporation* v. *United States,* (1940) 309 U.S. 436, 459, 60 S. Ct. 618, 84 L. Ed. 852, 862; *Morton Salt Co.* v. *G. S. Suppiger Co.,* (1942) 314 U.S. 488, 491, 62 S. Ct. 402, 86 L. Ed. 363, 365; *Mercoid Corp.* v. *Mid-Continent Invest. Co.,* (1944) 320 U.S. 661, 665, 64 S. Ct. 268, 88 L. Ed. 376,

380; *Carbice Corporation of America* v. *American Patents Development Corp.,* (1944) 283 U.S. 27, 75 L. Ed. 819 and *Leitch Manufacturing Co.* v. *Barber Co., Inc.,* (1938) 302 U.S. 458, 82 L. Ed. 371.

The federal questions presented by this petition were timely raised in the trial court. The misuse issues were pleaded as affirmative defenses in the Answers of respondents. The antitrust issue was raised as an affirmative defense by amendment to respondents' Answers at the trial (App. A, *infra*, p. 3a).

The trial court concluded as a matter of law:[1]

> "1. That under the law and the evidence there is no merit in any of the defendants' affirmative defenses herein . . ." (App. A, *infra*, p. 33a).

In its opinion affirming the trial court, the Supreme Court of the State of Washington (Department One) stated:

> ". . . The trial court awarded judgment to the plaintiff for accrued and unpaid royalities, finding that such royalties were due and owing and that none of the affirmative defenses alleged by the defendants had been established.
>
> "Mainly, the defenses urged by the defendants on appeal relate to the validity of the licensing contracts. It is contended that the contracts were illegal because (1) they placed restrictions on the subsequent free use of the patents after they were sold, (2) they conditioned the grant of a license on some patents on acceptance of a license on a larger group of patents, (3) they licensed the use of patents beyond the 17-year period of mo-

[1] The Findings of Fact and Conclusions of Law entered by the trial court are reprinted in App. A, *infra*, p. 29a. The Judgments of such court are reprinted in App. A, *infra*, p. 35a.

nopoly granted by the sovereign, and (4) they violated the antitrust laws of the United States (App. A, *infra*, p. 19a).

* * * * *

"The trial court did not err when it held that none of the affirmative defenses had been established. The judgment is therefore affirmed." (App. A, *infra*, p. 19a).

The opinion of the Supreme Court "became the final judgment" of that court on October 4, 1963 (App. A, *infra*, p. 20a).

B. The Decision Below

This case strikingly demonstrates the evils of patent misuse and antitrust violation consequent from the contractual extension of any part of a patent monopoly to unpatented materials—a practice which this court repeatedly has condemned in whatever guise it appeared.

Petitioners are individual hop farmers of limited means. They "purchased" used hop picking machines for a price of about $3,100 each. The "sales and license" contracts in suit are three party agreements between petitioners, respondent and the prior machine owners.[2] The prior owners were bound by "two party" contracts with respondent analogous to those here in suit. The trial court stated:

"It is further agreed that the form contracts used covered portable hop-picking machines and that the contracts were uniform with other contracts used whether they were three-party contracts or two-party contracts. The contracts purport to pass title to the machines to the defend-

[2] The Charvet contract is reprinted in App. C, *infra*, p. 41a. The Brulotte contract is reprinted in App. C, *infra*, p. 50a.

ants but provide that they ***shall not*** be used ***except under licenses*** specified in the contracts which also provide for payment of royalties. See sections 6, 7 and 8 of contracts (Exhibits 1 and 3)." (App. A, *infra*, p. 2a).

The statement of the trial court is obviously correct. The contracts in suit provide that the purchase of the hop-picking machines is "expressly . . . without the right to use said machines." (Par. 6, App. C, *infra*, p. 52a). The contracts provide "that in order to use said machines" petitioners "must secure" from respondent "a license" under 12 listed patents and various unidentified pending patent applications. The mandatory package license is included as a part of the contracts in suit. (Par. 6, App. C, *infra*, p. ~~2a~~). 43a

The contracts were for a term certain.[3] They "could only be cancelled at the election of the plaintiff [respondent] in the event of default or [sic] payment of royalties."[4] Royalties, including an annual minimum royalty of $500.00, were required to be paid throughout the term of the agreement

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[3] The contract of petitioner Brulotte was for a term which began on the 10th day of August, 1948 until the "completion of the 1958 harvest." (App. C, *infra*, p. 50a). The contract of petitioner Charvet was for a term which began on January 31, 1951 until "the completion of the 1960 harvest." (App. C, *infra*, p. 41a).

[4] The quotation is from the opinion of the Supreme Court of Washington (App. A, *infra*, p. 18a). The Court further quoted, with approval, the following statement from the trial court's opinion:

> "The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term. If defendants' contentions are meritorious then the contract would be cancellable at the will of the defendants. As stated, I am sure, that was not what was intended." (App. A, *infra*, p. 18a).

"irrespective of the date of expiration of any of the Letters Patent"

which were licensed, Par. 7, App. C, *infra,* p. 44a. *All* of the licensed *patents* in fact *expired*—and at least two were *invalidated— during the contract term.* At least five patents included in the mandatory package of 12 were *never* incorporated into the petitioners' hop-picking machines.

The trial court found as a fact:

> "7. . . It is admitted in the pleadings that seven and only seven of the twelve of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop-picking machines, and all of those patents expired on or before 1957. * * * Three patents were declared invalid by lower federal courts, namely Exhibit 6, a method patent, Exhibit 15 which was never incorporated into defendants' portable hop picking machines, and Exhibit 23 which was not listed by number in these contracts and was subsequently issued and was a patent pending as to Brulotte but not as to Charvet." * * * (App. A, *infra,* p. 32a).

The contracts in suit are prima facie invalid. The court below ignored the controlling decisions of this Court. It refused to be guided by the apposite recent decisions of the federal circuit courts of appeal. It affirmed the trial court judgment against each of the petitioners and their wives for past due royalties plus attorney's fees in the amount of $1,500.

REASONS FOR GRANTING THE WRIT

The decisions of the lower courts, both federal and state, are in hopeless conflict on the issues presented by this petition. The questions raised are of funda-

mental significance to the administration of the patent and antitrust laws. They arise in the preponderance of cases involving patent license contracts. The importance of the questions and the widespread confusion concerning the applicable law is demonstrated by the numerous conflicting opinions cited in the ensuing portions of this petition.

The petition should be granted to resolve

(a) a conflict in principle between the decision below which sustained post-expiration royalty contracts and the decision of this Court in *Scott Paper Co.* v. *Marcalus,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) which held that "the patentee of an expired patent . . . is foreclosed from recapturing any part of the former patent monopoly.",

(b) a conflict in *decision* between

(1) the holding below that a patent license agreement requiring post-expiration royalty payments is enforceable and

(2) the *contrary decisions* of the Third Circuit in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.,* 302 F. 2d 496 (3rd Cir. 1962)[5] and *American Securit Co.* v. *Shatterproof Glass Corp.,* 268 F. 2d 769 (3rd Cir. 1959),

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[5] The opinion below recognized that the decision in *Ar-Tik Systems* is "contrary". (App. A, *infra,* p. 17a)

The Third Circuit in *Ar-Tik Systems* cited *Scott Paper* as authority for its holding that post-expiration royalty provisions are unenforceable.

(c) a conflict in *principle* between

(1) the authorities on which the post-expiration royalty contracts were sustained below including, particularly, the decision of the *Second* Circuit in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (2 Cir. 1937)[6] and

(2) the decisions

(i) of the *Third* Circuit in *Ar-Tik Systems, Inc.* and *American Securit Co., supra,*

(ii) of the District Court for the District of Maryland in *Technograph Printed Electronics, Inc.* v. *The Bendix Corp.*, 218 F. Supp. 1 (1963).[7]

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[6] The decision in *Squibb* cites as precedent the earlier decisions of the Second Circuit in *Sproull* v. *Pratt & Whitney Co.*. 108 F. 963 (2d Cir. 1901) and *Pressed Steel Car Co.* v. *Union Pac. R. Co.*, 270 F. 518 (2d Cir. 1920).

Each of the authorities cited by the Court below relies, at least in part, upon the Second Circuit line of decisions culminating in *Squibb*. Prominent among such authorities is *Six Star Lubricants Co.* v. *Morehouse,* 101 Colo. 490 from which the court below quoted as follows:

> "There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents." (App. A, *infra,* p. 16a)

[7] With respect to the various misuse defenses the Maryland Court stated at p. 47:

> "An exhaustive treatment is not deemed necessary. First the court is entirely satisfied that the patents in question are invalid."

The Court also indicated that if there should be a remand it would be necessary to determine the time periods during which the misuse

(d) a conflict between the decision below which enforced a license contract extending a patent monopoly to unpatented materials by a post-expiration royalty provision and the decisions of this Court which preclude any extension of a patent monopoly to unpatented subject matter;[8] and

(e) a conflict between the decision below which contained a mandatory license under a package of patents and pending applications and the decisions of this Court which condemn such a practice as both a misuse and an antitrust violation.[9]

A. THE CONFLICT CONCERNING THE LEGALITY OF POST-EXPIRATION ROYALTY CONTRACTS—QUESTIONS 1 AND 2 ON THIS PETITION

Fundamental conflict exists in both the federal and state courts on the issue of whether a patent licensee agreement legitimately may require the post-expiration payment of royalties.

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practices were in force and that it would desire to have testimony as to the actual experiences of the licensees. The *Technograph* decision is on appeal to the United States Court of Appeals for the Fourth Circuit. If the Appellate Court should reverse the Maryland District Court on the misuse issues here relevant, the result would be a conflict with the decisions of the Third Circuit in *Ar-Tik Systems* and *American Securit, supra.*

[8] Such "misuse" decisions are numerous and include cases cited *supra*, page ~~8~~.3

[9] Representative decisions include *United States* v. *Loew's, Inc.* and *United States* v. *Paramount Pictures, Inc., supra*, page 3.

1. Cases Sustaining Post-Expiration Royalty Contracts

Persuaded by a series of decisions originating in the Second Circuit, the court below (App. A, p. 16a) held:

> "The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are E. R. Squibb & Sons v. Chemical Foundation, Inc., 93 F. 2d 475;[10] Starke v. Manufacturers Nat Bank of Detroit, 174 F. Supp. 882; Tate v. Lewis, 127 F. Supp. 105; H-P--M Development Corp. v. Watson-Stillman Co., 71 F. Supp. 906; and Six Star Lubricants Co. v. Morehouse, 101 Colo. 491."

The Court then acknowledged one conflicting decision—ignored or speciously distinguished others— and elected to follow *Squibb*. In so doing it emphasized the fundamental conflict presented by this petition. Footnote 3 of the opinion below (App. A, p. 17a) states:

> "3. We are aware of a recent *contrary* decision in Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F. 2d 496, (C.A. 3d 1962). In that case the payment of royalties was required throughout the life of the machines sold. This was held to be a misuse of patents. ***We may assume that the agreement was enough like those involved in this case to make the rule applicable. We find the reasoning of the earlier cases more appealing,*** however, and we are not obliged to follow decisions of lower federal courts. Lamb v. Railway Express Agency, 51 Wn. 2d 616. It is

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[10] The Second Circuit opinion in *Squibb* relied upon earlier decisions in the same court. See footnote 6, *supra*, page 9.

of interest that the writer of a review of this case in 30 Geo. Wash. L. Rev. 535, observed in a footnote that the agreement involved in the Hazeltine case (339 U.S. 827, 85 USPQ 378) might be justified by the Court of Appeals for the Third Circuit as a convenient method of payment." (Unless otherwise indicated all emphasis is added)

The decision below is the last in a line of cases sustaining post-expiration royalty cases on the authority of *Squibb.* Such cases include, in addition to those cited by the court below: *Dwight & Lloyd Sintering Co.* v. *American Ore Reclamation Co.,* 44 F. Supp. 396 (S.D.N.Y. 1939) and *Bettis Rubber Co.* v. *Kleaner,* 104 Cal. App. 2d 821, 233 P. 2d 82 (Cal. Dist. Ct. of Appeals 1951). In *Adams* v. *Dyer,* 129 Cal. App. 2d 160, 276 P. 2d 186 (1954) the court sustained a contract requiring post-expiration royalty payments on the general law of contracts and without reference to *Squibb.*

In Walker, *Patents,* p. 456 (1961 Supp. to Vol. II Deller's ed.), Ellis *Patent Licenses,* Sec. 109, p. 128 (3rd ed. Deller, 1958) and 69 C.J.S. Patents § 262, p. 802, there are statements to the effect that an agreement to pay royalties after a patent has expired may be valid and binding. The authorities cited are either the Second Circuit or other cases noted heretofore.

2. Cases Condemning Post-Expiration Royalty Payments As Constituting Patent Misuse

In *Scott Paper Co.* v. *Marcalus,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), this Court held that the assignor of a patent is not estopped in an infringement suit brought by his assignee from showing that the ac-

cused practice falls within the scope of an expired patent. In so doing, this Court stated at p. 255-257:

> "The nature and extent of the legal consequences of the expiration of a patent are *federal questions* the answers to which are to be derived from the patent laws and the policies which they adopt . . .
>
> ". . . *any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws* . . .
>
> "By the force of the patent laws not only is the invention of a patent dedicated to the public upon its expiration, but the public thereby becomes entitled to share in the good will which the patentee has built up in the patented article or product through the enjoyment of his patent monopoly. Hence we have *held* that the *patentee may not* exclude the public from participating in that good will *or secure, to any extent, a continuation of his monopoly* by resorting to the trademark law . . .
>
> "It is thus apparent that *the patent laws preclude* the *patentee of an expired patent* and all others including petitioner *from recapturing any part of the former patent monopoly;* for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all.

The rights in the invention are then no longer subject to private barter, sale or waiver."[11]

The decision below is inconsistent on its face with the decision in *Scott Paper Co.* which reaffirmed the prior rulings of this Court that:

> ". . . the patent laws preclude the patentee of an expired patent and all others . . . from recapturing any part of the former patent monopoly,"[12]

after the patent expires.

The federal courts, after the *Scott Paper Co.* decision, expressly held that post-expiration royalty contracts are unenforceable as contrary *to the public policy* of the patent laws.

These cases—which are squarely in conflict with the decision below—include: *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3d Cir. 1962); *American Securit Co.* v. *Shatterproof Glass Corp.*, 268

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[11] The court below *quoted and relied upon* the holding in *Six Star Lubricants Company, supra*, that:

> ". . . When the parties entered into the contract they knew of the expiration dates of the patents, and if defendants saw fit to contract for royalty beyond such a time, it may not now complain of an anticipated condition brought about by operation of law. . ." (App. A, *infra*, p. 16a)

The direct conflict between that ruling and the holding of this Court in *Scott Paper Co., supra*, that subsequent to the expiration of the patent,

> "the rights in the invention are then no longer subject to private barter, sale or exchange"

is self-evident.

[12] *Scott Paper* v. *Marcalus, supra*, was ignored by the court below and the trial court although strongly urged by defendants.

F. 2d 769 (3d Cir. 1959); *Technograph Printed Electronics, Inc.* v. *The Bendix Corporation,* 218 F. Supp. 1 (D.C. Md. 1963).[13]

In *Ar-Tik Systems, Inc.*—admittedly contrary to the decision below—the *Third* Circuit fully reviewed the relevant precedent, including the *Second* Circuit decision in *Squibb.* The Third Circuit rejected *Squibb,* recognized the mandate of this Court in *Scott Paper Co.* and held at p. 510:

> "After the expiration of Patent No. 2080971 on May 18, 1954, the grant of patent monopoly was spent. An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable. Such action clearly appears to be interdicted by Scott Paper Co. v. Marcalus Co., supra, and American Securit Co. v. Shatterproof Glass Corp., supra.
>
> "See Scapa Dryers, Inc. v. Abney Mills, 269 F. 2d 6 (5th Cir. 1959); Prestole Corp. v. Tinnerman Products, Inc. 271 F. 2d 146 (6 Cir. 1959).'"[14]

In *American Securit Co.,* the court condemned a *package* license agreement which inherently required

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[13] *Prior* to the decision in *American Securit Co., supra,* the doctrine of the *Squibb* case that post-expiration payments were unobjectionable was questioned in *Baker-Cammack Hosiery Mills* v. *Davis Co.,* 181 F. 2d 550 (4 Cir. 1950); *April Productions* v. *G. Schmirmer, Inc.,* 308 N.Y. 366, 126 N.E. 2d 283 (1955); *Warner-Lambert Pharm. Co.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D.N.Y. 1959). The last two decisions relied upon *Scott Paper Co.*

[14] In *Prestole Corporation* v. *Tinnerman Products, Inc.,* the Sixth Circuit on the authority of *Scott Paper Co.* held unenforceable certain license contracts which foreclosed the licensee from using the invention of an expired patent. The decision of the Fifth Circuit in *Scapa Dryers, Inc.* is to the same effect.

post-expiration royalty payments, in the following language which was quoted with approval in *Ar-Tik Systems*:

> "We conclude also, and quite apart from all of the foregoing, that Paragraph 8 of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit. * * *" (268 F. 2d at p. 777)

American Securit Co. was erroneously "distinguished" below. The Washington court said that "no authorities were cited in the opinion," that "the soundness of that decision is open to serious question," that the ruling was "in any event dictum" and that "the facts of that case differ substantially from those in this case." (App. A, p. 15a)

On the issue of post-expiration royalty payment there can be *no fact* distinction. *Both* courts found that the contracts respectively in issue required post-expiration royalty payment. The Third Circuit in *American Securit* found such a provision to constitute misuse. The court below held the contrary. The conflict in *decision* is inescapable.

The most recent conflicting opinion is that of the District Court for the District of Maryland in *Technograph, supra.* In that case the court considered two different post-expiration royalty contracts. The first contained an express requirement that royalties be paid after the expiration date of one of the licensed

patents. With respect to that contract the court at p. 48 said:

> "This express requirement that *royalty* be paid on a patent for five years after its expiration seems to be a clear violation of established principles that the monopoly of a patent cannot be continued, even by agreement, beyond its expiration date. Motion Picture Patents Co. v. Universal Film Mfg. Co., 1917, 243 U.S. 502, 516, 37 S. Ct. 416, 61 L. Ed. 871; Scott Paper Co. v. Marcalus Mfg. Co., Inc., 1945, 326 U.S. 249, 255-258, 66 S. Ct. 101, 90 L. Ed. 47; Prestole Corp. v. Tinnerman Products, Inc., 6 Cir., 1959, 271 F. 2d 146, 154, 155, cert. den. 1960, 361 U.S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545; Tinnerman Products, Inc. v. George K. Garrett Co., D.C. E.D. Pa. 1960, 185 F. Supp. 151, aff'd. 3 Cir. 1961, 292 F. 2d 137, cert. den. 1961, 368 U.S. 833, 82 S. Ct. 58, 7 L. Ed. 2d 35."

The second agreement discussed by the court in *Technograph* contained a provision similar to that condemned in *American Securit.* The Maryland court at p. 48 said:

> "The validity of such a provision was questioned by the Court of Appeals for the Fourth Circuit because it 'might easily lend itself to an unreasonable restraint of trade by extending patents beyond their legal limit . . .' (Baker-Cammack Hosiery Mills v. Davis Co., 4 Cir., 1950, 181 F. 2d 550, 573, cert. den. 1950, 340 U.S. 824, 71 S. Ct. 58, 95 L. Ed. 605) . . . ."

The Maryland court then noted that:

> ". . . such a provision was specifically held to be invalid in American Securit Co. v. Shatterproof Glass Co.,"

quoted the *same* passage from *American Securit* as that relied upon by the Third Circuit in *Ar-Tik Systems,* and stated:

> "This court is in accord with the Third Circuit holding."

B. THE CONFLICT WITH THE DECISIONS OF THIS COURT IN THE "TYING" CASES

The subject matter of an expired patent necessarily is *unpatented*—"the patentee may not . . . secure . . . *to any extent* . . . a continuation of his monopoly."[15]

The decision below which sustains post-expiration royalty contracts is, therefore, in direct conflict with the decisions of this Court in the "tying cases". The most recent decision *United States* v. *Loew's, Inc.,* 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1963) cites the pertinent prior decisions and states the applicable rule as follows:

> "These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles."

The application of the rule of the "tying" cases to the extension of the monopoly of an expired patent was recognized by the Sixth Circuit in *Prestole Corporation* v. *Tinnerman Products, Inc.,* 271 F. 2d 146 (6th Cir., 1959). In that case the court held each of a package of licensed patents misused because the license agreement restricted the free use of the invention of one of the patents which had expired. The court at p. 155 said:

> "It is however unimportant on the point involved here that some of the mentioned patents

[15] *Scott Paper Co.* v. *Marcalus,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

had not expired. Our decision is controlled by the fact that one of them had expired . . .

"We have in mind that after the expiration of a patent, the invention originally protected thereby becomes, for all purposes, an unpatented device. The Courts have uniformly held that existing patents cannot, by conditions attached to license agreements, be used to create or extend a monopoly to unpatented articles.

"In the case of Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376, an accused infringer interposed as defense to a charge of infringement that the plaintiff, 'should be barred from relief because it was seeking to extend the grant of the patent to unpatented devices' (320 U.S. at page 662, 64 S. Ct. at page 269).

"While the facts of that case are not directly in point with the case at bar, the principles involved are sufficiently analogous that the Court's reasoning is apposite here. . . ."

The fundamental conflict between the decision below and the apposite decisions of this Court is strikingly demonstrated by the attempt of the Washington court to distinguish *Prestole.* The court below said: (App. A, p. 15a)

"The defendants also cite Prestole Corp. v. Tinnerman Products, Inc., 271 F. 2d 146, 123 USPQ 242, and Tinnerman Products, Inc. v. George K. Garrett Co., 185 F. Supp. 151, 126 USPQ 130. These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period." (162 Wash. Dec. 28)

But it is clear from *Scott Paper Co.* that the patentee may not "recapture any part of the former patent

monopoly."[16] So much of the decision below as purports to distinguish Prestole on the ground that a post-expiration royalty contract is not an extension of the patent monopoly is manifestly in conflict with *Scott Paper Co.*—and with the subsequent cases invalidating post-expiration royalty contracts as an extension of the expired patent monopoly on the authority of that decision.

C. THE CONFLICT WITH THE DECISIONS OF THIS COURT WHICH FORBID, AS AN ANTITRUST VIOLATION AND AS A MISUSE, THE COERCIVE PACKAGE LICENSING OF PATENTS—QUESTION 3 ON THIS PETITION

The decision below sustained a patent license which "expressly" require that petitioners "... in order to use ..." certain old machines purchased from prior owners "... *must* secure ..." from respondent "... a license to use ..." a package of 12 issued patents and various unidentified patent applications. (App. A, p. 11a).

At least *five* of the licensed patents were *never* incorporated into the machines in question. *All* expired—and at least *two* were *invalidated* during the license *term*—"which ... could only be cancelled at the election *of the plaintiff*." (App. A, p.18a)

The decision below is in obvious conflict with the rulings of this Court which condemn, as an antitrust violation, the grant of a license under one patent or copyright on condition that a license under additional patents or copyrights be accepted. *United States* v. *Loew's Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11

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[16] Compare the proper application of *Scott Paper Company* in an identical situation by the Maryland District Court in *Technograph*, *supra*, as follows:

> "This ... *requirement that royalty be paid* on a patent ... *after* its *expiration* seems to be a clear violation of established principles that the monopoly of a patent can not be continued even by agreement beyond its expiration date."

(1962); *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 92 L. Ed. 1260 (1948).

To avoid a holding of antitrust violation, the court below ignored the very terms of the contracts in suit. It said (App. A, p. 14a):

> "(2) In regard to the contention that the contracts are illegal because they condition the grant of a license on some patents on acceptance of a license on a larger group of patents, the complete answer is that this is simply not the fact. *The contracts do not require the defendants to take a license on all or none of the patents* held by the plaintiff; they simply give them a license to use as many of the patented devices or methods as they choose, whether or not they were incorporated in the machines when they were purchased.
>
> * * * * *
>
> "In this case, the trial court did not find, and the *contracts in themselves do not reveal that there was any conditioning of the grant of a license to use the machines on an acceptance of a license to use other methods and devices not at that time embodied in the machines . . ."*

These statements are wrong on the face of the contracts. They reflect the unsuccessful struggle of the Court to conform the facts of this case with those in *Automatic Radio Manufacturing Co.* v. *Haseltine,* 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1949), on the authority of which it justified its decision.[17] The contracts state:

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[17] In *Automatic Radio* this Court expressly found

"... no inherent ~~exception~~ extension of the monopoly of the patent ...", a finding which could not have been made with respect to post-expiration royalty contracts as both the trial Court (154 F. Supp. 890, D. Del. 1957) and the appellate Court recognized in *American Securit supra.* Actually the Court below appears to have relied

"5. Title to said machine(s) shall vest in Second Party (petitioners) on delivery of said machine(s) to Second Party by Third Party[18] but the *vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.*

"6. It is *expressly* understood that the *sale* and/or delivery of said machine(s) *is without the right to use said machine(s)* and/or the methods and processes disclosed and claimed in the *Letters Patent listed hereinafter, and that in order to use said machine(s)* and/or said methods and processes *Second Party (Petitioners) must secure* from First Party (Respondent) a *license* to use said machine(s) and/or said methods and processes, and *that the continuing right to use said machine(s)* and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

"WHEREFORE, First Party [Respondent] hereby grants to Second Party [Petitioners] a . . . license . . ." (There follows a list of 12 issued patents followed by the statement, "Other Patents Pending.") (App. C, p. 42a).

On their face the contracts in suit

(a) vest in petitioners [Second Parties] *only* naked title to the used hop picking machines purchased

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upon *Automatic Radio* in support of its conclusion that the public right in the subject matter of an expired patent may be compromised by private contract. See note 4 *supra* page 5. *Automatic Radio* is frequently, albeit inaccurately, urged to be contrary to *Scott Paper Company* on this fundamental point. The need for an authoritative delineation of the relationship between these two decisions affords an additional reason for the granting of this petition.

[18] The prior owner of the "purchased machines".

from the prior owners [Third Parties] (par. 5) App. C, p. 42a, infra, and

(b) require that the petitioners

> "... *must* secure from First Party [Respondent] a license ..." (par. 6) App. C, p. 43a, infra.

under *a package of 12 patents* and various unidentified patent applications—*only seven of which were ever needed*—to obtain "the right to use said machines" (par. 6) App. C, p. 43a, infra.

With respect to the twelve patents in the compulsory license package, the trial court found as a fact:

> "7. ... It is admitted in the pleadings that seven and *only seven of the twelve* of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop picking machines, and all of those patents expired on or before 1957. * * * (App. A, p. 32a).

On this record the statement of the court below that

> "... the contracts in themselves do not reveal that there was any conditioning of the grant to a license to use the machines on an acceptance of a license to use other machines and devices not at that time embodied in the machines." (App. A, p. 15a).

is obviously *wrong*. Antitrust violation under the rule announced by this Court in *Loew's* and *Paramount* is inescapable. Certiorari should be granted to correct the conflict between the decision below and the controlling decisions of this Court.

CONCLUSION

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX A

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, *Plaintiff*,

v.

WALTER C. BRULOTTE and JANE DOE BRULOTTE, his wife, *Defendants*.

No. 43602

THYS COMPANY, a corporation, *Plaintiff*,

v.

RAYMOND CHARVET and JANE DOE CHARVET, his wife *Defendants*.

Memorandum Opinion

This is a suit for royalties claimed due under sale and licensing contracts covering certain hop-picking machines and various hop-picking machine patents listed therein. The plaintiff alleges non-payment of royalties and seeks judgment for the minimum annual royalties together with an accounting to determine any additional sum that may be due. The defendants entered a denial and plead certain affirmative defenses.

The facts, in the main, are not disputed. The plaintiff entered into a licensing contract with the defendant Brulotte on August 10, 1948, which contract was to run to the completion of the 1958 harvest season. The defendant Charvet's agreement commenced on January 31, 1951, and extended to the completion of the 1960 harvest season. Both contracts are essentially the same in content and listed twelve patents together with "other patents pending".

It is admitted that only six or seven of the patents listed were incorporated into the machines here in question and that all of those patents expired on or before 1957. Of the patents pending at the time the agreements were entered into it is agreed that one patent (Exhibit 22) was pending as to both defendants at the time the contracts were entered into and that said patent does not expire until 1969. One patent (Exhibit 23) was pending as to Brulotte but not as to Charvet and is as yet unexpired. One patent (Exhibit 25) was pending as to Charvet but not as to Brulotte and it is unexpired. These patents pending were available for use by the defendants but the record is inconclusive as to whether or not they were in fact used or incorporated into the machines. Three patents were declared invalid by lower Federal Courts. One of the patents declared invalid was a method patent (Exhibit 6) and another patent (Exhibit 15) was admittedly never incorporated into the machines. The other patent declared invalid (Exhibit 23) was a patent pending as to Brulotte only.

It is further admitted that the contracts were signed as alleged in the complaints and that neither defendant paid any royalties after the 1952 season. The defendant Brulotte testified that he used the machine from the period 1953 to 1958, both inclusive. The defendant Charvet stated that he did not use the machine after 1952, at which time he removed his hopyard and that in 1958-1959 he raised hops but did not use the machine listed in the contract.

It is further agreed that the form contracts used covered portable hop-picking machines and that the contracts were uniform with other contracts used whether they were three-party contracts or two-party contracts. The contracts purport to pass title to the machines to the defendants but provide that they shall not be used except under licenses specified in the contracts which also provide for payment of royalties. See sections 6, 7 and 8 of contracts (Exhibits 1 and 3).

The affirmative defenses of the defendants raise the following issues: (1) Are the actions barred by the statute of limitations? (2) Is there a failure on the part of the plaintiff to comply with the terms of the contract? (3) Is there an eviction or failure of consideration because of invalidity of three patents? (4) Is the plaintiff guilty of fraud? (5) Are the contracts void or unenforceable as against public policy because of attempted restrictions in the use of the machines after sale? (6) Are the contracts void as against public policy or unenforceable because of misuse of patent rights by the plaintiff in: (a) tying-in patents not in use in the machines; (b) extending licenses beyond terms of patents, and (c) restricting free use of machine by having patents on relatively inconsequential portion of the total machine.

Besides the above affirmative defenses the defendants argue that the royalties cannot be collected because (1) the machines were not used or while the machines were not used, and (2) because the contracts were terminated by the defendants' default in paying the royalties.

I find no substance in the argument of the defendants that the contracts were terminated by the default of the defendants, since it appears to me that under the language of the contracts contained in paragraph six thereof, it was the intent of the parties that the contracts could only be cancelled at the election of the plaintiff in the event of default or payment of royalties. A party should not be allowed to take advantage of his own default unless the language in the contract is clear and specific as to such right. This contract provides that the right to use the machines is conditioned upon full performance by the licensee. The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term. If defendants' contentions are meritorious then the contract would be cancellable at will of the defendants. As stated, I am sure

that is not what was intended. I, therefore, hold that the contracts herein were not terminated by the defaults of the defendants.

I also find there is no merit in the defendants' contentions that the royalties cannot be collected while the machine is not in use. That argument flies in the face the whole intent and wording of the contracts. If that argument were meritorious then the parties certainly would not have fixed minimum royalties.

I also find no merit in the first for affirmative defenses. The first, second and fourth affirmative defenses were not sustained by the evidence and were not argued, and therefore, I assume the defendants found no comfort in them. As to the third affirmative defense, that is, the defense of eviction or failure of consideration, it seems to me there is likewise lack of evidence. The licenses here cover not one single patent but several, and were *non-exclusive.* There is no evidence in the record that the three patents which were declared invalid were the "substance" of the agreement or had any effect whatsoever on the operation of the machines or caused the defendants any concern, much less *evict* them from the use of the machine. It is admitted that at least one of the patents, (Exhibit 7), was for a total hop-picking machine and this patent was not declared invalid. It is the general rule that courts will not inquire into the adequacy of consideration as long as some consideration exists. It is evident that there was some consideration here and the defendants have not sustained the burden of proving that it was insufficient consideration any more than they have sustained the burden of proving that they have been evicted from the use of the machines. The defendants got what they bargained for and may not complain about inconsequential matters. See *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.,* [C. A. 1] 176 Fed. 2d 799. See also *North Drive-In Theatre Corp.* v. *Park-In Theatres.* [C. A. 10] 248 F. 2d 232.

The next contention made by the defendants fifth affirmative defense is that the contracts are void as against public policy because of attempted restrictions in the use of the machines after sale. The defendants contend that the plaintiff cannot sell the machines and at the same time control the right to use the machines. In other words, that at the time of the sale the machine passed beyond the monopoly of the plaintiff. The cases cited by defendants, however, deal with the attempts on the part of the patentee to control the resale prices of patented articles, or in some other way to restrain or limit the use of the articles. None of those cases hold that a contract is invalid simply because it requires the payment of royalties after passing of bare title.

Our Supreme Court in the case of *Thys* v. *State*, 31 Wn. 2d 739, held that the royalties provision under this same type of contract kept the sale from being an "unconditional" sale since it conveyed bare title without right of use and that the royalties were in effect a part of the purchase price. I think that case and the cases cited therein are conclusive in favor of the plaintiff in this matter even though this question was not squarely presented in the former *Thys* case. Certainly, it is a recognition by the court that this is not an unconditional sale. Furthermore, the cases cited by the defendants were mostly patent infringement cases or cases brought under the anti-trust laws and concerned attempts by patentees to clearly control the use or resale of patented articles after they had passed unconditional titles. They do not say that a patentee may not collect royalties as a part of the sale and as a condition thereto.

The matters chiefly relied on by the defendants, however, are contained in their sixth affirmative defense. They argue that the contracts are void as against public policy or unenforceable because of misuse of patent rights in three particulars, namely: (a) tying-in patents not used

in the machines (b) extending licenses beyond terms of patents (c) restricting free use of the machines by having patents on a relatively inconsequential portion of the total machines. The allegations of misuse contained in (c) above are clearly not sustained by the evidence. As stated before, at least one patent is for a whole hop picking-machine. Certainly, there is no evidence upon which a court could find that the patents used are "inconsequential".

As to items of misuse (a) and (b), the defendants principally rely upon the case of *American Securit Company* v. *Shatterproof Glass Corporation* [C. A. 3] 268 F. 2d 769 (1959), wherein the court held that mandatory patent package licensing constituted a misuse of patents and also held that a provision in a licensing agreement which provides that the agreement should continue in full force and effect to the expiration of the last patent to expire constituted patent misuse by extending the payment of royalties beyond the expiration date of some of the patents. On the other hand, as to item (a), the plaintiff relies mainly upon the case of *Automatic Radio Manufacturing Company* v. *Hazeltine Research Inc.*, 77 F. Supp. 493, affirmed [C. A. 1] 176 F. 2d 799, affirmed 339 U.S. 827, 94 L. ed. 1312.

The *American Securit* case is distinguishable from the case here under consideration as to item (a) in that the patentee in that case did not desire to license the licensee under any of the patents unless it licensed it under all of them. In other words, in that case it appeared that the licensee was *compelled* to accept a package of patents whether it needed some of them or not, and that, therefore, the unwanted patents were tied in with the ones that were really wanted and did not stand on their own feet. The court held that each monopoly must stand on its own footing and cannot be conditioned upon the acceptance of another patent. There is no evidence in the record here that the defendants, or either of them: had sought and been re-

fused a license covering less than those listed in the agreement or that the plaintiff refused to grant a license under any one or more of its patents to anyone who refused to take a license under all of them. The plaintiff was merely licensing the right to use a machine and threw in all of the patents it had, regardless of whether they were being used in the machine at the present time or not.

The agreements here were essentially for the sale and use of hop-picking machines and as stated before, the defendants, received just what they bargained for. They received the machines and were never disturbed in their use of them. If any patents were included which were not needed in the use of the machines, they were mere surplusage and there is no evidence from which the court might conclude that any special value was placed upon any of the patents which were not incorporated in the machines. If the court could find from the evidence that the defendants were paying for something that they did not need then a different matter would be presented. In any event, the contracts do not become unenforceable merely because the licensees in a particular year do not happen to utilize a particular patent. The licensees had the right to use all of the patents and if they choose not to use them that is their own business. It does not change the fact that they had a *right* to use them, and that is all they bargained for. As a matter of fact, however, in this case the listings of the various unused patents seem to me to be extremely inconsequential since as stated before, the defendants received just what they bargained for, namely, the title to and the right to use a certain hop-picking machine.

Undoubtedly, the *Securit* case enlarged the misuse doctrine to cases where the use of one patent is used to strengthen the licensing appeal of another patent. The doctrine should not apply, however, where the whole package pertains or is necessary to the production of a *single product* for which the licensee is bargaining. In such a

case the licensee can only complain when the package is not large enough—not when it is too large. The licensee knows exactly what he wants and is getting, viz., a certain product or machine together with the free and uninterrupted use thereof, and if he gets that how can he complain that he has been given too many patents, unless he can show that the additional patent cost him extra. There has been no such showing in this case. All parties knew what was being transferred, all knew the price, and all agreed. No evidence has been adduced to show any mandatory tying-in of unwanted patents or to show any special or additional charges for unused or unwanted patents. The defendants have, therefore, not sustained the burden of proof as to item (a).

As to item (b), i.e., the extending of the life of the licenses beyond the life of the listed patents, the defendants rely solely on the *Securit* case. In the instant case the contracts (Exhibits 1 and 3) provide that the term of the license shall be from the date of the agreement until the end of a certain year's harvest "irrespective of the date of expiration of any of the letters patent hereinabove listed". As a matter of fact, all of the patents listed and used in the machines expired in 1955 or 1957. The patents pending (only the patents pending at time contracts were entered into are of significance, viz., Exhibits 22, 23, and 25) were not expired and two of such patents pending apply to each party defendant. Therefore, it may be said that most, but not all, patents contemplated by the parties had expired prior to the end of the licensing terms. The *Securit* case holds that failure to provide for reduction in package royalties upon the expiration of individual patents contained in the package constitutes misuse. Such a holding, therefore, requires that each patent, if the licensee so desires, be priced and licensed individually even though pertaining to a single product. Such a requirement makes sense if each patent pertains to some separate process or

product, since each should stand on its own footing. But where the parties are dealing in regard to *one* product, such as a hop-picking machine, which is their sole concern, then the requirement of a separate listing puts an undue and meaningless burden on both licensee and patentee by dividing and dissipating their rights and by making a simple thing extremely complicated, tricky, and difficult to understand by the ordinary layman. In any event, I think it clear that the great majority of cases hold that the following of such a requirement is not necessary to avoid misuse. The defendants here knew or were charged with the knowledge of the expiration dates of the patents, but nevertheless agreed to extend the royalty payments over a longer term than most of the patents, which arrangement was as much or more for their own benefit as for the plaintiff's benefit. It seems to me that they cannot now complain of unclean hands caused by an *anticipated* condition brought on by operation of law. A majority of the courts so hold. See *Six Star Lub. Co.* v. *Morehouse* (Colo.) 74 Pac. 2d 1239; *H.P.M. Develop. Corp.* v. *Watson Stillman Co.*, 71 Fed. Supp. 906; *Pressed Steel Car Co.* v. *U. P. Ry. Co.* [C.A. 2] 270 Fed. 518; *E. R. Squibb & Sons.* v. *Chem. Foundation*, [C.A. 2] 93 Fed. 2d 475; *Chic. Pneumatic Tool Co.* v. *Ziegler*, [C.A. 3] 151 Fed. 2d 784; *Hope Basket Co.* v. *Product Advancement Corp.*, [C.A. 6] 187 Fed. 2d 1008; 69 C.J.S. 780 section 252 and section 262.

There was no misuse of patents and therefore defendants cannot prevail on their sixth affirmative defense.

The plaintiff is therefore entitled to recover against both defendants as prayed in for the complaints.

Lloyd L. Wiehl
Judge

WASHINGTON SUPREME COURT, DEPARTMENT ONE

THYS COMPANY v. BRULOTTE et al.

No. 36357

Decided June 6, 1963

* * * * * * * * * *

Appeals from Superior Court, Yakima County, Washington, Wiehl, J.

Two actions by Thys Company for royalties under patent licenses, one against Walter C. Brulotte et al., and one against Raymond Charvet et al. From judgments for plaintiff, defendants appeal. Affirmed.

VELIKANJE & MOORE and CHARLES C. COUNTRYMAN, both of Yakima, Wash., for appellants.

CHENEY & HUTCHESON and ELWOOD HUTCHESON, both of Yakima, Wash., for respondent.

ROSELLINI, Justice.

This is a suit for royalties claimed due under sale and licensing contracts covering certain portable hop-picking machine patents listed therein. The trial court awarded judgment to the plaintiff for accrued and unpaid royalties, finding that such royalties were due and owing and that none of the affirmative defenses alleged by the defendants had been established.

Mainly, the defenses urged by the defendants on appeal relate to the validity of the licensing contracts. It is contended that the contracts were illegal because (1) they placed restrictions on the subsequent free use of the patents after they were sold, (2) they conditioned the grant of a license on some patents on acceptance of a license on a larger group of patents, (3) they licensed the use of patents beyond the 17-year period of monopoly granted by the sovereign, and (4) they violated the antitrust laws of

the United States. It is also contended that the contracts were terminated when the defendants first failed to pay royalties when they became due. For a last defense, the defendants alleged that they were not obligated to pay royalties for the years when the machines were not in use.

Before discussing these contentions, it will be well to describe the contracts under consideration in this action and the facts leading up to the litigation.

The plaintiff Thys Company, of which Mr. Edouard Thys, an inventor, was and is the president, holds numerous duly issued patents on mechanical hop-picking machines. The defendants are hop farmers who purchased portable hop-picking machines from sellers other than the plaintiff. In connection with the purchase of these machines, which embodied devices patented by the plaintiff, each defendant agreed to pay the plaintiff royalties for the use of his machine for a period which was to end 17 years after the date the machine was first sold by the plaintiff. The royalties were to be paid at the rate of \$3.33⅓ per two hundred pounds of hops harvested with the machines, and in any event a minimum royalty of \$500 per year was to be paid for the use of each machine.

Under the terms of the licensing provisions of the contract, the defendants were entitled to use the machines and to make use of any of the patents which were owned by the plaintiff, as well as patents pending on hop-picking devices and methods, all of which were listed in the contracts, so long as they abided by the terms of the contracts. Not all of the patented items were used in the machines, and it was the purpose of the provision licensing use of all the patents to enable the purchaser to utilize the other patented items if they so desired without being obliged to pay additional royalties.

There was an agreement on the part of the defendants to keep records of the amount of hops harvested and to

render annual accountings to the plaintiff. The defendants also agreed to keep the machines in good repair during the term of the licenses, and to keep them insured. The plaintiff agreed to furnish replacement parts when they were in stock. There was an agreement not to assign the contract or to allow the machines to become subject to any lien or encumbrance other than liens for current taxes, without the consent of the plaintiff. The plaintiff agreed that such consent should not be unreasonably withheld.

In each contract, there were provisions that failure to enforce a provision would not operate as a waiver of the right to require subsequent strict performance; that time was of the essence of the contract; that a discount would be allowed for prompt payment of royalties; that the defendants should pay reasonable attorneys' fees to plaintiff in the event legal action should become necessary to enforce the terms of the contract; and that the terms of the contract comprised the entire agreement between the parties. The defendants also conceded the validity of any patent licensed in the contracts.

The defendant Brulotte purchased his machine in 1948; his obligation to pay royalties extended through the 1958 harvest. The defendants Charvet purchased their machine in 1951 and agreed to pay royalties until the completion of the 1960 harvest. The patents listed in the contracts expired at varying dates, some before the end of the period during which royalties were required and some after that period.

No royalties were paid by either party after the 1952 harvest season. Brulotte used his machine until 1958, but the Charvets did not use their machine after 1952. Apparently, these defendants purchased stationary machines when they stopped using the portable machines, finding them more satisfactory.

No error is assigned to the finding of fact. All of the errors assigned pertain to the interpretation and effect of the contracts. We will deal with these in the order in which they are listed at the begining of this opinion.

(1) The first contention is that these royalty contracts embodied attempts on the part of the plaintiff to control the use of patented articles after they were sold. Numerous authorities are cited which hold that the sale of a patented article by one holding the patent, or a license to use the patent, puts the patented article beyond the reach of the monopoly conferred by the patent. But in this case, the patented articles were not sold by the patent holder or his licensee. Rather, bare title to the manufactured article was sold by the manufacturer at the time of the first sale, and the right to use the article was licensed to the purchaser by the patent holder. As the United States Supreme Court said in United States v. Masonite Corp., 316 U.S. 265,

> "* * * The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

Under the contracts involved in this action, the manufacturer was paid for the making of the machines, plus a reasonable profit, and conveyed the title; the patentee, on the other hand, agreed to take his remuneration in the form of royalties, payable over a period of years, which was to the advantage of the purchaser, who was enabled to pay for the use of the machine over a long period of time. There was no reward to the patent owner other than the royalties payable under the contracts. Under the rule laid down in the Masonite case, then, there was no such a disposition of the machines when these contracts were entered into, that it could fairly be said that the plaintiff, the patentee, had received his reward for the use of the machines. That re-

ward would not be received until the final royalty payments were made.[1] Consequently, such control as he exercised over the use of the machines during the period when royalties were owned was within the monopoly granted him by the sovereign when the patents were issued.

(2) In regard to the contention that the contracts are illegal because they condition the grant of a license on some patents on acceptance of a license on a larger group of patents, the complete answer is that this is simply not the fact. The contracts do not require the defendants to take a license on all or none of the patents held by the plaintiff; they simply give them a license to use as many of the patented devices or not methods as they choose, whether or not they were incorporated in the machines when they were purchased.

None of the authorities cited by the defendants holds a licensing contract of this type invalid. A contract with a similar provision was upheld in the leading case of Automatic Radio Mfg. Co. v. Hazeltine, 339 U.S. 827. There a radio research organization entered into a licensing agreement with a manufacturer of radio broadcasting receivers, for royalties amounting to a small percentage of the manufacturer's selling price of complete radio broadcasting receivers, whereby it was given the right to use any or all of the patentee's 570 patents and any others which it might acquire. In that case, in an effort to avoid the obligation to pay royalties, the manufacturer made the same contention that is made here, that the contracts were invalid because they "conditioned" the licensing of the use of some patents on the acceptance of others. The court dismissed this contention summarily, remarking that there was no showing in the record that this was the case. The court ap-

[1] This holding is in accord with the construction which this court gave to identical licensing contracts, for tax purposes, in the case of Thys v. State, 31 Wn. 2d 739, cert. den. 337 U.S. 917.

proved the district court's characterization of the licensing agreement as "essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties."

In this case, the trial court did not find, and the contracts in themselves do not reveal that there was any conditioning of the grant of a license to use the machines on an acceptance of a license to use other methods and devices not at that time embodied in the machines. We need not decide whether, if there had been such a condition, it would have rendered the contracts illegal.

(3) The next contention is that the contracts were unenforcible because they licensed the use of patents beyond the 17-year period of monopoly granted by the sovereign. American Securit Co. v. Shatterproof Glass Corp., 268 F. 2d 769, is cited in support of that proposition. In that case, the court found that a patentee had refused to grant licenses on patents which the manufacturer had desired to use unless the manufacturer would accept other licenses and held that this was a misuse of patents.[2] As a consequence, the patentee was denied recovery in its patent infringement suit. The court then went on to say that a provision that the licensing agreement should continue in full force and effect until the expiration of the last of the patentee's licenses constituted a misuse of patent. No authorities are cited in the opinion, and there is no discussion of the theory the court used in arriving at this conclusion. It is, in any event, dictum.

The defendants also cite Prestole Corp. v. Tinnerman Products, Inc., 271 F.2d 146, and Tinnerman Products, Inc. v. George K. Garrett Co., 185 F. Supp. 151. These cases

[2] The correctness of that decision is open to serious question; but we do not deem it necessary to discuss it here, inasmuch as the facts of that case differ substantially from those in this case.

do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period.

The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are E. R. Squibb & Sons. v. Chemical Foundation, Inc., 93 F. 2d 475; Starke v. Manufacturers Nat. Bank of Detroit, 174 F. Supp. 882; Tate v. Lewis, 127 F. Supp. 105; H-P-M Development Corp. v. Watson-Stillman Co., 71 F. Supp. 906; and Six Star Lubricants Co. v. Morehouse, 101 Colo. 491. In the latter case, where an attempt was made to avoid the obligation to pay royalties because the contract called for their payment beyond the expiration date of the patent, the court said:

> "There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents. 48 C.J. 277, § 451; Mitchell v. Hawley, 16 Wall. (U.S.) 544, 21 L. Ed. 322; Pressed Steel Car Co. v. Union P. R.R. Co., 270 F. 518.
>
> "* * *
>
> "Under these circumstances, we do not believe that we should declare, as a matter of law, that the contracts of October 26, 1925, terminated upon the expiration of the patents. * * *
>
> "* * * When the parties entered into the contract they knew of the expiration dates of the patents, and if defendants saw fit to contract for royalty beyond such a time, it may not now complain of an anticipated condition brought about by operation of law. * * *"

This is the rule which is set forth in Ellis, Patent Licenses (3d ed.) § 109, p. 128.[3]

In this case, when the parties signed their agreements, the instruments showed on their faces that some of the patents would expire before the end of the period during which the payment of royalties was required. It was undoubtedly understood between them that a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent. They agreed that the value of the right to use the patents embodied in the machines was at least $500 per year, for the remaining years of the royalty period. There is no legal or equitable reason why they should not be required to perform their agreement.

(4) The allegation that the contracts violate the antitrust laws of the United States is grounded on the contention that they constitute an abuse of patents, which, as we have already held, is without merit.

(5) In support of the contention that the contracts were terminated when the defendants ceased to pay royalties, they point to the language of the contracts granting the license:

> "* * * as long as the terms hereof be fully and faithfully performed and maintained, to use said ma-

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[3] We are aware of a recent contrary decision in Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F. 2d 496 (C.A. 3d 1962). In that case the payment of royalties was required throughout the life of the machines sold. This was held to be a misuse of patents. We may assume that the agreement was enough like those involved in this case to make the rule applicable. We find the reasoning of the earlier cases more appealing, however, and we are not obliged to follow decisions of lower federal courts. Lamb v. Railway Express Agency, 51 Wn. 2d 616. It is of interest that the writer of a review of this case in 31 Geo. Wash. L. Rev. 535, observed in a footnote that the agreement involved in the Hazeltine case (339 U.S. 827) might be justified by the Court of Appeals for the Third Circuit as a convenient method of payment.

> chine(s), for the purpose for which said machine(s) was/were designed * * *."

and say that this language reveals an agreement that the obligation of both parties should cease in the event of default.

We cannot agree with this interpretation. In regard to this contention, the learned trial judge, in a very able memorandum decision, said:

> "I find no substance in the argument of the defendants that the contracts were terminated by the default of the defendants, since it appears to me that under the language of the contracts contained in paragraph six thereof, it was the intent of the parties that the contracts could only be cancelled at the election of the plaintiff in the event of default or payment of royalties. A party should not be allowed to take advantage of his own default unless the language in the contract is clear and specific as to such right. This contract provides that the right to use the machines is conditioned upon full performance by the licensee. The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term. If defendants' contentions are meritorious then the contract would be cancellable at will of the defendants. As stated, I am sure that is not what was intended. I, therefore, hold that the contracts herein were not terminated by the defaults of the defendants."

In cases cited by the appellants, the courts found that the parties had evidenced by their words, agreements that the licenses should terminate on default of the licensees. Such cases are Mason v. Electrol Inc., 292 N.Y. 482; Standard Appliance Co. v. Standard Equipment Co., 296 F. 456, and Rose v. Imbrey, 37 N.Y.S. 2d 793. It should be noted

that none of the cases involved a licensing agreement pertaining to a manufactured product sold to the licensee, but rather, all concerned the licensing of patents to manufacturers who might or might not manufacture articles embodying the patents, depending on a number of circumstances. If they failed to use the patents, the licensor would not be greatly harmed if the contract were terminated, for he could license other manufacturers. But here, if the contracts were to be construed as providing for automatic termination on default of the defendants, the plaintiff would lose his reward for his patents, while the defendants would retain the patented machines. It cannot be supposed that such a result was intended.

Likewise, the contracts involved in the cited cases contained no absolute obligation to pay royalties. The contracts before this court do contain such obligations; according to their language, a minimum royalty is due each year for a definite number of years, regardless of whether hops are harvested. There is no ambiguity, and the trial court correctly so held.

(6) What we have just said disposes of the contention that royalties were not required for years when the machines were not used.

The trial court did not err when it held that none of the affirmative defenses had been established. The judgment is therefore affirmed.

OTT, Chief Justice, HILL, HUNTER, and HALE, Justices, concur.

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

Remittitur

No. 36357

Yakima County Nos. 43538 and 43602

THYS COMPANY, a corporation, *Respondent*

v.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, *Appellants.*

THYS COMPANY, a corporation, *Respondent,*

v.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, *Appellants.*

This is to certify that the opinion of the Supreme Court of the State of Washington filed on June 6, 1963, became the final judgment of this court in the above entitled case on October 4, 1963. This cause is remitted to the superior court from which the appeal was taken for further proceedings in accordance with the attached true copy of the opinion.

Pursuant to Rule 55 on Appeal, costs are taxed as follows:

Four Hundred Sixty-eight and 57/100 ($468.57) Dollars in favor of respondent and against appellants and their surety American Surety Company of New York.

The Petition for Rehearing was Denied October 4, 1963.
cc: Court Reporter

VELIKANJE & MOORE
MR. CHARLES C. COUNTRYMAN

CHENEY & HUTCHESON
MR. ELWOOD HUTCHESON

In Testimony Whereof, I have hereunto set my hand and affixed the seal of said Court at Olympia, this 5th day of October, A.D. 1963.

William M. Lowery
Clerk of the Supreme Court,
State of Washington.

(Filed Feb. 19, 1960)

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

Thys Company, a corporation, *Plaintiff*,
v.
Walter C. Brulotte and Jane Doe Brulotte, his wife,
Defendants.

No. 43602

Thys Company, a corporation, *Plaintiff*,
v.
Raymond Charvet and Jane Doe Charvet, his wife,
Defendants.

Stipulation and Order for Consolidation

It Is Hereby Stipulated and Agreed by and between the parties herein by their respective counsel that the two above entitled causes, involving similar issues of law and fact, shall be consolidated for trial.

Cheney & Hutcheson
Attorneys for Plaintiff

Velikanje & Moore
Charles C. Countryman
Attorneys for Defendants

Pursuant to the foregoing stipulation, IT IS HEREBY ORDERED that the two above entitled causes are hereby consolidated for trial.

DONE IN OPEN COURT this 19th day of February, 1960.

? ? ? ?
Judge

Presented by:
ELWOOD HUTCHESON
Of Counsel for Plaintiff

APPROVED:
CHARLES C. COUNTRYMAN
Of Counsel for Defendants.

(Filed Jan. 6, 1962)

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

No. 36357

THYS COMPANY, a corporation, *Respondent,*

v.

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife, *Appellants.*

THYS COMPANY, a corporation, *Respondent,*

v.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, *Appellants.*

Stipulation and Motion for Consolidation of Cases on Appeal

Come now the parties hereto by and through their respective attorneys of record and stipulate and join in moving the Court for the entry of an order consolidating the two appeals above set forth for hearing in the Supreme

Court of the State of Washington. This stipulation and motion is made by the parties hereto for the reasons that the two cases were consolidated for trial in the Superior Court of the Sate of Washington in and for Yakima County, the two cases involve facts substantially similar, and the issues of law on appeal are substantially similar.

DATED this 5th day of January, 1962.

VELIKANJE & MOORE
By CHARLES C. COUNTRYMAN
Attorneys for Appellants

CHENEY & HUTCHESON
By ELWOOD HUTCHESON
Attorneys for Respondent

Order Consolidating Cases on Appeal

This matter coming on this day upon the stipulation and joint motion of the parties thereto, and it appearing to the Court that the two appeals above set forth should be consolidated for hearing on appeal,

THEREFORE, IT IS NOW ORDERED, ADJUDGED AND DECREED that the two appeals above set forth are consolidated for all purposes on appeal.

DATED this 6th day of January, 1962.

ROBERT C. FINLEY
Chief Justice

Presented by:
CHARLES C. COUNTRYMAN of
VELIKANJE & MOORE
Attorneys for Appellants

ELWOOD HUTCHESON of
CHENEY & HUTCHESON
Attorneys for Respondent

Excerpts from Transcript of Proceedings

Mr. Countryman: Before proceeding, I would like to move for allowance of amendment to the Answer, which is set forth in our amended answer which was dated June 21, 1960, as to the defendants Walter C. Brulotte and Jane Doe Brulotte, his wife, which was served June 21st, 1960.

The Court: May 23rd

Mr. Countryman: No, Your Honor, that was served just two days ago, I believe. Here is an extra copy of it. Since those cases were consolidated, both files are not completed with this.

The Court: Well, there was a notice of trial amendment on May 22nd. Oh, this is an "Amended Notice of Trial Amendment"?

Mr. Countryman: You have not seen that before.

The Court: It wasn't filed, was it?

Mr. Countryman: Yes, it was filed.

The Court: Probably filed but I don't know whether it was in the file.

Mr. Countryman: All right. As to the defendants Walter C. Brulotte and Jane Doe Brulotte, we move to amend our answer as follows: In answer to Paragraph 6—

The Court: Oh, I beg your pardon, it is in the file.

Mr. Countryman: "In answer to paragraph 6 of plaintiff's complaint, defendants Walter C. Brulotte and Jane Doe Brulotte, his wife, admit that hops have been harvested with the said machine from the period of 1953 through 1958. No hops have been harvested with said machine since the harvest of 1958. Defendants admit that no royalty payments have been made by defendants to plaintiff during 1953, or at any time since. Defendants deny

that any amount whatsoever is payable as Washington State Sales Tax or otherwise by defendants to plaintiff.

Defendants Walter C. Brulotte and Jane Doe Brulotte, his wife and defendants Raymond Charvet and Jane Doe Charvet, his wife, plead further as follows:

Pleading further and by way of a fourth affirmative defense, defendants allege:

1.

At the time of entering into the contracts between the plaintiff and defendants herein, plaintiff represented to defendants that there were twelve (12) patents incorporated into the portable hop-picking machines and in order to use said hop-picking machines after purchasing them it would be necessary for these defendants to obtain a license to use said hop-picking machines. In truth and in fact, only seven (7) out of the said twelve (12) patents were incorporated into the said hop-picking machines, and plaintiff at all times knew that such was the situation. Said plaintiff further represented to these defendants that the use of said machines was protected by his patents until the expiration of the term of the proposed contract between the parties hereto, whereas in truth and in fact the latest of said patents actually incorporated into the said hop-picking machines expired in 1957. Such fact was known by plaintiff. All of said representations were made with the intention of plaintiff to induce defendants to enter into the said contracts for a consideration in excess of a reasonable consideration for the use of patents actually incorporated into the said machine, and for a term in excess of the patent monopoly on said patents plaintiff believed itself to be entitled to at that time. These defendants, with the right to do so, did in fact rely upon the said false representations, there being no contrary information available or readily available. These defendants subsequently learned that the representations made by plaintiff were in

fact untrue. Said representations were further made by plaintiff to extend its patent monopoly beyond the scope of the privilege awarded to it under the patent laws of the United States and contrary to the anti-trust laws of the United States. That defendants have no liability to plaintiff under the alleged contracts by reason of the fraudulent representations and actions of plaintiff.

Pleading further and by way of a fifth affirmative defense, defendants allege:

1.

The under the alleged contracts, plaintiff attempted to restrict the use of the hop-picking machines involved, after sale of the machines. That such attempt is against public policy, unlawful and renders said alleged contracts void and unenforcible.

Pleading further and by way of a sixth affirmative defense, defendants allege:

1.

The contracts involved in these actions are part of a concerted scheme and effort by plaintiff to unlawfully extend the patent rights beyond the term granted plaintiff under the patent laws of the United States, thereby creating an unlawful monopoly; that by reason thereof these contracts are void, against public policy and not enforcible.

Mr. Countryman: Your Honor, so far as not to intentionally delay these proceedings, the defendants Raymond Charvet and Jane Doe Charvet, his wife, move to incorporate in their answer the additional defenses just read on behalf of the defendants Brulotte.

Mr. Hutcheson: If Your Honor please, the plaintiff objects to the proposed amendments as not timely. The case has been pending for about one year, and it seems to

me that these are rather important issues to be raised right at the moment, and secondly, if these proposed amendments are allowed, I would like to know what is meant in the fourth and fith defenses when they say the plaintiff represents, and I would like to know who it is if they are claiming an alleged misrepresentation. I would like to know who it is. I don't know whether the witness would be available and it seems to me that these proposed amendments are not timely at this time.

Mr. Countryman: Your Honor, as Your Honor knows, a patent case finds its way into our office very seldom and until a short time ago there were attempts to settle this action and all efforts bogged down. The additional defenses raised do not raise questions of fact and they are very exclusively questions of law and involve interpretation of the contract which I am sure will go into evidence. As far as wondering who made representations in our defenses, I can stipulate that the only representations that we rely on are those indicated in our trial memorandum and authorities and the actual representations made in the contract itself, and so we won't be bringing in any agent of the plaintiff to testify as to any representations other than those set forth in the contract. And so while actually it may be at first blush a late time to move forward and set forth defenses it will actually give the Court more information of the matters set forth in our memorandum and I fail to see that the plaintiff will be prejudiced by the allowance of these amendments.

The Court: Do you have anything to say, Mr. Hutcheson, in regard to that?

Mr. Hutcheson: Nothing further, Your Honor.

The Court: Well, of course, I wouldn't allow a trial amendment at this late date if it is going to prejudice going ahead with the case or you in your preparation of the case. In other words, if you have some witness or

some evidence you haven't had time to get by virtue of this trial amendment, I certainly wouldn't ask that you go ahead with the trial of the case.

Mr. Hutcheson: In view of counsel's statement, I don't believe that is entirely true, but I think that we can go ahead with the case. With reference to the time, some of the books were out of the library that I haven't seen yet and would like to review.

The Court: Well, I will allow the trial amendment and give you time to answer any of the points brought up by the trial amendment and brought up by the defendants' brief that you have not had a chance to cover.

Mr. Hutcheson: I assume that the affirmative defenses are deemed denied, because we do deny them.

The Court: Well, they are deemed denied under the Federal Rules anyway.

Mr. Hutcheson: I will call Mr. Walter Brulotte.

Mr. Countryman: May I state, Counsel, that Mr. Brulotte is slightly hard of hearing and you must speak up.

* * * * * * * * * * *

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

THYS COMPANY, a corporation, *Plaintiff*,

vs.

WALTER C. BRULOTTE, and CECILIA BRULOTTE, his wife, *Defendants.*

No. 43602

THYS COMPANY, a corporation, *Plaintiff*,

vs.

RAYMOND CHARVET and BLANCHE CHARVET, his wife, *Defendants.*

Findings of Fact and Conclusions of Law

These two consolidated causes having heretofore duly come on for trial together before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys Cheney & Hutcheson, and the defendants being present in person and by their attorneys, Velikanje & Moore and Charles C. Countryman, and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for new trial;

Now, THEREFORE, the court does hereby make the following

FINDINGS OF FACT

1.

That at all times herein mentioned, plaintiff herein, Thys Company, was, and now is, a corporation duly

organized and existing pursuant to the laws of the State of California, and that it has paid all license fees due to the State of Washington.

2.

That at all times herein mentioned the defendants Walter C. Brulotte and Cecilia Brulotte were and now are husband and wife and as such constitute a marital community and reside in Yakima County, Washington. That at all times herein mentioned, the defendants Raymond Charvet and Blanche Charvet were and now are, husband and wife and as such constitute a marital community and reside in Yakima County, Washington.

3.

That on August 10, 1948, for valuable consideration the plaintiff and the defendant Walter C. Brulotte for and on behalf of said marital community entered into a written contract whereby said defendants purchased one certain Thys portable hop picking machine No. 44-L-59, and the plaintiff, as the licensee and holder of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1958 hop harvest at the rate of \$3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum royalty of not less than \$500.00 plus tax per year. A copy of said contract was admitted in evidence as plaintiff's Exhibit No. 1 herein and the same is incorporated by reference herein. At all times subsequent thereto said hop picking machine has been in the possession and control of said defendants.

4.

That on or about the 31st day of January, 1951, for valuable consideration, the plaintiff and the defendant

Raymond Charvet, for and on behalf of said marital community entered into a written contract whereby said defendants purchased one certain Thys portable hop picking machine No. 44-L-132, and the plaintiff, as the Licensee and hold of certain United States patent rights thereon, granted a license to said defendants for the use of said patented hop picking machine, and said defendants promised and agreed to pay to the plaintiff an annual royalty from the date thereof until the completion of the 1960 hop harvest at the rate of \$3.33⅓ per bale of 200 pounds of dried hops harvested by said picking machine, with an annual minimum royalty of not less than \$500.00 plus tax per year. A copy of said contract was admitted in evidence as plaintiff's Exhibit No. 3 and the same is incorporated by reference herein. At all times subsequent thereto said hop picking machine has been in the possession and control of said defendants.

5.

That repeated demands have been made by the plaintiff upon both the defendants Brulotte and Charvet for the payment of hop picking machine royalties pursuant to said written contracts, but no payment whatever has been made by either of said defendants for any year subsequent to 1952, and prior to the trial of these actions said defendants failed to furnish the plaintiff with any information as to the quantity of hops picked with said picking machines or either of them, and the plaintiff had no knowledge or information with reference thereto. Under state law as construed by the supreme court there was also payable by the defendants a state sales tax in the sum of 4 per cent of said royalties payable annually. Under said agreements there was a minimum annual royalty in the sum of at least \$520.00, including said state sales tax. Plaintiff has duly performed all of the terms and conditions of said contract by it to be performed.

6.

Said Charvet's hop picking machine has not been used or operated since 1952. The defendants Charvet are therefore liable for said annual minimum royalty in the sum of $520.00 per year including said state sales tax, which became due and payable on October 15th of each year under said contract commencing October 15, 1953, for each year to and including 1959.

7.

The defendants have failed to sustain the burden of proof as to each and all of the affirmative defenses herein. Each of these actions was commenced prior to October 15, 1959. Neither of the parties herein ever gave the other any oral or written notice of termination or cancellation of said license-royalty contracts or either of them; and the plaintiff never elected to terminate said contracts by reason of any default on the part of the defendants. It is admitted in the pleadings that seven and only seven of the twelve of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop picking machines, and all of those patents expired on or before 1957. Of the patents pending at the time the agreements were entered into one patent (Exhibit 22) was pending when both defendants' contracts were entered into and said patent does not expire until 1969. One patent (Exhibit 23) was pending as to Brulotte but not as to Charvet and is as yet unexpired; and one patent, (Exhibit 25) was pending as to Charvet but not as to Brulotte and is as yet unexpired. Three patents were declared invalid by lower federal courts, namely Exhibit 6, a method patent, Exhibit 15 which was never incorporated into defendants' portable hop picking machines, and Exhibit 23 which was not listed by number in these contracts and was subsequently issued and was a patent pending as to Brulotte but not as to Charvet. There has been no disturbance or interference

with the defendants' continued possession and use or right of use of said hop picking machines, and the defendants have not been evicted in the enjoyment of their privileged use of said hop picking machines under said non-exclusive license contracts, and there has been no eviction or failure of consideration with reference thereto. Plaintiff has not been guilty of any fraud or misrepresentation to the defendants with reference thereto. Said contracts (Exhibits 1 and 3) were form contracts and covered said portable hop picking machines and were uniform with other contracts used by the plaintiff whether they were three-party or two-party contracts. The plaintiff was not guilty of any misuse of its patent rights.

8.

Each of said contracts provides that defendants agree to pay plaintiff's reasonable attorneys' fees in any court litigation. That the sum of $1,500.00 is a reasonable sum to be allowed the plaintiff herein as attorneys' fees in the Brulotte case. That the sum of $1,500.00 is a reasonable sum to be allowed the plaintiff herein as attorneys' fees in the Charyet case.

From the Foregoing Findings of Fact the court now makes the following

Conclusions of Law

1.

That under the law and the evidence there is no merit in any of the defendants' affirmative defenses herein. These actions are not barred by the statute of limitations. Said contracts were not terminated by the defaults of the defendants. The defendants have not been evicted in the enjoyment of their privileged use of said hop picking machines, and there has been no eviction or failure of consideration. There has been no fraudulent misrepresentation

with reference thereto on the part of the plaintiff, There was no failure on the part of the plaintiff to comply with the terms of said contracts. Said royalty contracts are not void, against public policy, or unenforceable, either because of attempted unlawful restrictions in the use of the machines after sale, or because of misuse of patent rights by the plaintiff or otherwise. There has been no misuse of its patent rights by the plaintiff, and the plaintiff has not come into court herein with unclean hands.

2.

That the plaintiff is entitled to have entered in the Brulotte case an order requiring the defendants therein to promptly make and furnish an accounting with reference to the quantity of hops picked during said period with said hop picking machine and the amount of royalties due and payable therefor: and thereafter that judgment and decree be entered in said Brulotte case herein accordingly in favor of the plaintiff and against the defendants therein.

3.

That by reason of the fact that the testimony heretofore shows without dispute the facts hereinabove stated in paragraph 6 of the findings of fact with reference to the use of the Charvet machine, a further accounting with reference to the extent of use of the Charvet machine would be useless and unnecessary.

4.

That the plaintiff is entitled to have and recover judgment against the defendants in the Charvet case for the said minimum agreed royalty including state sales tax, irrespective of the use or non-use of said machine, in the sum of $520.00 per year for each of said years from 1953 to and including 1959 to-wit the total principal sum of $3,640.00 together with interest thereon at 6 per cent per

annum from October 15th of each of said years commencing October 15, 1953 upon each of said annual royalty payments, said interest to this date being the total sum of $1,092.00, or a total amount of principal and interest as of this date in the sum of $4,732.00 together with interest thereon at 6 per cent per annum from October 15, 1961 until paid and together with plaintiff's reasonable attorney's fees in said case in the sum of $1,500.00 and together with plaintiff's costs and disbursements incurred in the Charvet case hereinafter to be taxed.

Done In Open Court this 6th day of October, 1961.

Judge

Presented by:
Cheney & Hutcheson
By Elwood Hutcheson
Attorneys for Plaintiff

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43538

Thys Company, a corporation, *Plaintiff*,

v.

Walter C. Brulotte and Cecilia Brulotte, his wife, *Defendants*.

Judgment

This Cause having heretofore duly come on for trial before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys, Cheney & Hutcheson, and the defendants being present in person and by their

attorneys, Velikanje & Moore and Charles C. Countryman, and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court having heretofore filed its written memorandum opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for a new trial; and the court having heretofore entered its interlocutory order of accounting herein and the defendant having thereafter filed his affidavit pursuant thereto and the same having been accepted by the plaintiff without the necessity of a further accounting hearing herein, and the court having heretofore duly made and entered its supplemental findings of fact and conclusions of law:

Now Therefore, It Is Hereby Ordered, Adjudged and Decreed that the plaintiff herein Thys Company, a corporation, does hereby have and recover judgment against the defendant Walter C. Brulotte and the marital community composed of Walter C. Brulotte and Cecelia Brulotte, husband and wife, in the sum of $1,005.34 together with interest thereon at 6 per cent per annum from October 15, 1953 until paid, plus $1,074.66 together with interest thereon at 6 per cent per annum from October 15, 1954 until paid, plus $658.66 together with interest thereon at 6 per cent per annum from October 15, 1955 until paid, plus $710.66 together with interest thereon at 6 per cent per annum from October 15, 1956 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1957 until paid, plus $520.00 together with interest thereon at 6 per cent per annum from October 15, 1958 until paid; each of said principal amounts including 4 per cent state sales tax; or the total principal sum of $4,489.32 plus total interest in the sum of $1,602.64 computed to October 15, 1961, or the total sum of $6,091.96, together with interest on said last mention sum at 6 per cent per annum from October 15, 1961 until paid, and together with plaintiff's reasonable attorneys' fees in this

action in the sum of $1,500.00 and together with plaintiff's costs and disbursements herein to be taxed.

Done in Open Court this 20th day of October, 1961.

s/ Lloyd L. Wiehl
Judge

Presented by:

Cheney & Hutcheson

By s/ Elwood Hutcheson
Attorneys for Plaintiff

OK As to Form:

s/ Charles C. Countryman
Counsel for Defendants

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR YAKIMA COUNTY

No. 43602

Thys Company, a corporation, *Plaintiff*,

vs.

Raymond Charvet and Blanche Charvet, his wife,
Defendants.

Judgment

This cause having heretofore duly come on for trial before the undersigned judge of the above entitled court sitting without a jury, and the plaintiff being present by its president and by its attorneys Cheney & Hutcheson, and the defendants being present in person and by their attorneys Velikanje & Moore and Charles C. Countryman and the court having heard the evidence and the arguments of counsel and being duly advised in the premises, and the court, having heretofore filed its written memorandum

opinion herein and having heretofore denied the defendants' motion for reconsideration and motion for new trial, and the court having heretofore duly made and entered its findings of fact and conclusions of law;

Now, Therefore, It Is Hereby Ordered, Adjudged and Decreed that the plaintiff herein Thys Company, a corporation, does hereby have and recover judgment against the defendant Raymond Charvet and the marital community composed of Raymond Charvet and Blanche Charvet, husband and wife, in the total principal amount of $3,640.00 together with accrued interest thereon to this date in the total sum of $1,092.00 or the total amount of principal and interest in the sum of $4,732.00, together with interest thereon at 6 per cent per annum from October 15, 1961 until paid and together with plaintiff's reasonable attorneys' fees in the sum of $1,500.00 and together with plaintiff's costs and disbursements herein to be taxed.

Done In Open Court this 6th day of October, 1961.

/s/ Lloyd L. Wiehl
Judge

Presented by:
Cheney & Hutcheson
By /s/ Elwood Hutcheson
Attorneys for Plaintiff

APPENDIX B

§ 1. *Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty*

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, § 1, 26 Stat. 209; Aug. 17, 1937,

c. 690, Title VIII, 50 Stat. 693; July 7, 1955, c. 281, 69 Stat. 282.

* * * * * * * * * *

§ 2. *Monopolizing trade a misdemeanor; penalty*

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, § 2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282.

* * * * * * * * * *

§ 154. *Contents and term of patent*

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. July 19, 1952, c. 950, § 1, 66 Stat. 804.

APPENDIX C

Agreement

This Agreement, Made this 31st day of January, 1951, by and between Thys Company, a Corporation, hereinafter referred to as First Party, and Raymond Charvet, of Grandview, Washington, hereinafter referred to as Second Party and Oliver Champoux, of Route 1, Toppenish, Wash., hereinafter referred to as Third Party,

Witnesseth:

Whereas, First Party is the licensee of E. Clemens Horst Co., a New Jersey Corporation, of San Francisco, California, under certain United States Letters Patent relating to the art of hop picking and separating machines of both portable and stationary types, hereinafter referred to as hop picking machines or as machines, and under certain United States Letters Patent for improved methods of maintenance of said machines; and

Whereas, First Party is willing to license Second Party to use said machines and to practice the methods and processes disclosed and claimed in the Letter Patent hereinafter listed and related thereto, but upon the terms and conditions hereinafter set forth; and

Whereas, Second Party is willing to buy certain of said machines from Third Party and to be licensed by First Party to use said machines and to practice the methods and processes disclosed and claimed in the letters Patent hereinafter listed and related thereto, and upon the terms and conditions hereinafter set forth;

Now, Therefore, in consideration of the purchase price specified in Paragraph 2 hereof to be paid by Second Party to Third Party, and in consideration of the covenants and agreements herein contained, and for other good, adequate and valuable consideration between the parties moving,

It Is Agreed as follows:

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, one (1) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows: 44-L-132, said machine(s) to be delivered by Third Party to Second Party on or before January 31, 1951.

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Thirty-Three Hundred dollars ($3300.00) and Third Party acknowledges receipt of said sum of Thirty Three Hundred dollars ($3300.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales. excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s) and to practice the methods and processes disclosed and

claimed in Letters Patent hereinafter listed and related thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U.S. Patent Number	*Date of Issue*	*Invention*
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean.
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from date first above written until completion of the 1960 harvest, irrespective of the date of expiration of any of the Letters Patent hereinbefore listed.

8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious breakdown or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the

normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party.

9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty property payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machines(s).

10. Second Party will use coir yarn or other twine satisfactory to First Party in the operation of said machine(s), but in any event the royalties provided in Paragraph 8 hereof shall be payable whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed in said Patent No. 2,114,712 be made use of.

11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect.

12. First Party agrees to furnish at Sacramento, California, the place of manufacture of said machines, or at such other place at which said machines may hereafter be manufacured, if First Party shall at the time have the same in stock, such replacement parts as may be necessary for

making repairs to said machines, and Second Party shall pay or cause to be paid for all such replacement parts furnished by First Party a reasonable price together with all transportation charges and expenses of installation.

13. Second Party shall keep said machine(s) in a good state of repair and shall promptly renew and replace all broken or worn-out parts.

14. Second Party shall pay, prior to delinquency, all taxes on said machine(s) and shall maintain or cause to be maintained Insurance against loss of or damage to said machine(s) by fire, theft and collision in amounts equal to their full insurable value in insurance companies and under policies satisfactory to First Party, and shall, from time to time, give to First Party such information as First Party may reasonably request concerning such insurance and the payment of premiums thereon.

15. In case of any default in the performance of the covenants contained in Paragraphs 12, 13 and 14 hereof, First Party may perform the same and advance all sums necessary for that purpose, repayment of which shall be secured by the chattel mortgages referred in to Paragraph 4 hereof, but such action on the part of the First Party shall not relieve Second Party from the consequences of any such default.

16. Second Party shall keep or cause to be kept on said machines in plain view at all times any and all plates and stencils or other markings placed thereon by First Party.

17. First Party shall not be liable for any loss of or damage to said machine(s) nor for any injury to persons or damage to property resulting in any manner from the use or operation thereof, and Second Party shall hold First Party harmless from any claim of any kind referred to in this paragraph.

18. It is agreed that no representations or warranties, express or implied, are or have been made by First Party

or any of its agents concerning said machine(s) or the use or operation thereof.

19. First Party shall be under no liability or obligation for any failure or delay in the performance of any terms, covenants or conditions of this agreement on its part to be performed if such failure or delay shall result, in whole or in part, from fire, strike, riot, interruption of the usual means of transportation, failure of First Party's sources of supply or materials, war, act of God, or other elements, or any other cause beyond the control of First Party whether similar or dissimilar to those hereinbefore specified.

20. Second Party shall not assign this agreement nor any interest therein, and shall not permit said machine(s) to become subject to any lien or encumbrance other than the liens for current taxes, nor permit said machine(s) to be removed from Yakima County, State of Washington, nor permit said machine(s) to be seized or levied upon by process of law, without the prior written consent of First Party. First Party shall not unreasonably withhold such consent.

21. This agreement or any extension or continuation shall inure to the benefit of and shall be binding upon the successors, heirs, executors, administrators and assigns of the parties hereto, subject, however, to the provisions of Paragraph 20 hereof.

22. No waiver of or failure to enforce any of the provisions of this agreement nor any extension of time or partial payment of any amount due hereunder before or after delinquency shall operate to extend the time on the payment of the balance of such amount nor be considered as a waiver of the strict performance of this agreement on all subsequent payments and in every other particular.

23. The venue of any action commenced by First Party to enforce the provisions of this agreement or of any chat-

tel mortgage given pursuant hereto may, at the option of First Party, be laid in Yakima County, Washington, or Sacramento County, California, and in addition to taxable costs as provided by law, First Party shall be entitled to recover a reasonable sum as attorney's fees in such action.

24. Time is of the essence of this agreement, and each and every provision thereof except as expressly otherwise herein provided.

25. Upon prompt payment in full of Royalties due hereunder within time prescribed in Paragraph 8 above and provided Second Party is not in default in its faithful performance of this agreement and of all its covenants, First Party will allow a discount of 10% of such Royalty; but this provision shall not operate to reduce the minimum Royalty required of Second Party as provided in said Paragraph 8.

26. All remedies herein provided for are cumulative and not exclusive of any other remedies provided herein or by law.

27. The terms of this instrument comprise the entire agreement between the parties hereto, and no variation from the same shall be valid unless made in writing between said parties.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Grandview, Washington, or such other address as may be designated in writing by Second Party to First Party.

In Witness Whereof, the parties hereto have executed this agreement in duplicate the day and year first above written.

Thys Company
illegible
First Party

Raymond Charvet
Second Party

Oliver Champoux
Third Party

(seal)

State of Washington }
County of Yakima } ss

On this 31st day of January, 1961, personally appeared before me Raymond Charvet and Oliver Champoux, to me known to be the individuals described in and who executed the foregoing instrument, and acknowledged to me that they signed and sealed same as their free and voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and official seal this 31st day of January, 1961.

Elwood Hutcheson
Notary Public for the State of Washington residing at Yakima.

(seal)

Defendant's Exhibit "A"

Agreement

This Agreement, Made this 10th day of August, 1948, by and between Thys Company, a Corporation, hereinafter referred to as First Party, and Walter Brulotte, of Moxee, Washington, hereinafter referred to as Second Party and Yakima Chief Ranches Inc., of Mabton, Washington, hereinafter referred to as Third Party.

Witnesseth:

Whereas, First Party is the licensee of E. Clemens Horst Co., a New Jersey Corporation, of San Francisco, California, under certain United States Letters Patents relating to the art of hop picking and separating machines of both portable and stationary types, hereinafter referred to as hop picking machines or as machines, and under certain United States Letters Patent for improved methods of maintenance of said machines; and

Whereas, First Party is willing to license Second Party to use said machines and to practice the methods and processes disclosed and claimed in the Letter Patent hereinafter listed and related thereto, but upon the terms and conditions hereinafter set forth; and

Whereas, Second Party is willing to buy certain of said machines from Third Party and to be licensed by First Party to use said machines and to practice the methods and processes disclosed and claimed in the letters Patent hereinafter listed and related thereto, and upon the terms and-conditions hereinafter set forth;

Now, Therefore, in consideration of the purchase price specified in Paragraph 2 hereof to be paid by Second Party to Third Party, and in consideration of the covenants and agreements herein contained, and for other good, adequate and valuable consideration between the parties moving,

It Is Agreed as follows:

1. Third Party hereby sells to Second Party and Second Party buys from Third Party, two (2) Portable Hop Picking machine(s) identified by First Party's serial number(s) as follows: 44-L-55 and 44-L-59, said machine(s) to be delivered by Third Party to Second Party on or before August 10, 1948.

2. Second Party hereby pays to Third Party as purchase price of said machine(s) the sum of Sixty two hundred and no/100 dollars ($6,200.00) and Third Party acknowledges receipt of said sum of Sixty two hundred and no/100 dollars ($6,200.00).

3. Second Party shall pay to the order of Third Party, on delivery of said machine(s), in addition to the final installment of the purchase price, the sum of all sales, excise or other taxes levied on the manufacture, sale, delivery and licensing of said machine(s).

4. Second Party shall execute and deliver to First Party to secure the payment of royalty as provided in Paragraph 8 hereof a chattel mortgage in substantially the form submitted herewith as Exhibit "A" or, in lieu thereof, such other security as First Party shall accept. First Party shall not unreasonably decline to accept such other security if, in the fair and reasonable judgment of First Party, such other security adequately and fully secures the payment of reasonably anticipated royalty payable as provided in Paragraph 8. Chattel mortgage or other acceptable security as above to be given annually by Second Party when requested by First Party. Provisions of this paragraph 4, shall be enforced only in the event that Second Party has defaulted in his obligations under the present agreement.

5. Title to said machine(s) shall vest in Second Party on delivery of said machine(s) to Second Party by Third Party, but the vesting of title to said machine(s) in Second Party shall not license Second Party to use said machine(s)

and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.

6. It is expressly understood that the sale and/or delivery of said machine(s) is without the right to use said machine(s) and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that in order to use said machine(s) and or said methods and processes Second Party must secure from First Party a license to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

WHEREFORE, First Party hereby grants to Second Party a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

U.S. Patent Number	*Date of Issue*	*Invention*
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

7. The term of the license granted to Second Party by First Party, as provided in Paragraph 6 hereof, shall be from date first above written until the completion of the 1960 harvest irrespective of the date of expiration of any of the Letters Patent hereinbefore listed.

8. For and in consideration of the license, set forth in Paragraph 6 hereinabove, Second Party agrees to pay to First Party a royalty of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of dried hops harvested by machines purchased by Second Party, said royalty being payable when the amount of bales picked is determined on or before the 15th day of October of each year during the term hereof, for all hops harvested during the preceding twelve (12) calendar months. In any event the minimum royalty payable hereunder shall be Five Hundred Dollars ($500) per machine per annum, and if the royalties computed at the rate of Three Dollars and Thirty-Three and One-Third Cents ($3.33-1/3) per two hundred (200) pounds of hops harvested shall not aggregate as much as Five Hundred Dollars ($500) for each machine in each period of twelve (12) calendar months herein referred to, said sum of Five Hundred Dollars ($500) per machine shall nevertheless be paid to First Party by the following October 15th and any royalties paid on any machine in excess of Five Hundred Dollars ($500) per annum shall not apply against or reduce the minimum royalties payable on any other machines; provided, that if it shall be impossible, in the fair and reasonable judgment of Party of the First Part to use any such machine during any part of a particular picking season because of a serious breakdown or breakdowns of a machine, occurring notwithstanding the exercise of reasonable care on the part of the user or users thereof, an equitable adjustment shall be made of the amount of minimum royalty payable on such machines for such picking season, based upon the number of days during which such machine cannot be used bears to the total number of days in the

normal picking season. Second Party agrees that any royalties payable by Second Party may be collected from any source or through any company by the giving of orders to pay if this method is desired by First Party.

9. Second Party will deliver to First Party on or before October 15th of each year during the term hereof, statements in such reasonable details as First Party may request, showing the amount of royalties payable on each machine licensed hereunder and the manner in which such amount was computed. First Party and its agents shall have free access at all times to said machine(s) wherever situated or operated for the purpose of inspecting and observing the operation thereof and determining the amount of hops harvested thereby, and First Party and its agents shall have the right to examine the records of Second Party insofar as may be necessary for the purpose of determining the amount of royalty property payable hereunder. Second Party shall make and preserve proper records showing the amount of hops harvested by means of each of such machine(s).

10. Second Party will use coir yarn or other twine satisfactory to First Party in the operation of said machine(s), but in any event the royalties provided in Paragraph 8 hereof shall be payable whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed in said Patent No. 2,114,712 be made use of.

11. Second Party concedes the validity of all Letters Patent licensed herein, and further agrees that it will not contest, directly or indirectly, the validity of any herein licensed patent, so long as this agreement remains in full force and effect.

28. Any notice, report or other communication required or permitted to be given the First Party hereunder shall be given in writing by United States registered mail addressed to First Party at 6900 Folsom Boulevard, Sacramento, California, or such other address as First Party

may designate by notice in writing to Second Party, and any such notice, report or other communication required or permitted to be given to Second Party may be mailed to Second Party in the same manner at Moxee, Washington, or such other address as may be designated in writing by Second Party to First Party.

In Witness Whereof, the parties hereto have executed this agreement in duplicate the day and year first above written.

Thys Company
illegible
First Party

Walter C. Brulotte
Second Party

Yakima Chief Ranches Inc.,
illegible
its President.
Third Party

State of Washington }
County of Yakima } ss

On this 9 day of August, 1948, personally appeared before me Walter Brulotte, to me known to be the individual described in and who executed the foregoing instrument, and acknowledged to me that he signed and sealed same as his free and voluntary act and deed for the uses and purposes therein mentioned.

Witness my hand and official seal this 9 day of August, 1948.

illegible
Notary Public in and for the State of Washington
Residing at Yakima

Commission expires March 29, 1951

(seal)

In the Supreme Court of the United States

October Term, 1964

No. [redacted] 20

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY, *Respondent.*

Brief of Respondent in Opposition

GEORGE W. WILKINS
401 Hoge Building
Seattle 4, Washington

ELWOOD HUTCHESON
318 Miller Building
Yakima, Washington
Attorneys for Respondent

FRANKLIN PRESS — YAKIMA, WASH.

In the Supreme Court of the United States

October Term, 1963

No. 707

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY, *Respondent.*

Brief of Respondent in Opposition

GEORGE W. WILKINS
401 Hoge Building
Seattle 4, Washington

ELWOOD HUTCHESON
318 Miller Building
Yakima, Washington
Attorneys for Respondent

INDEX

CASES CITED

OTHER CITATIONS

In the
Supreme Court of the United States
October Term, 1963

No. 707

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,
v.
THYS COMPANY, *Respondent*.

Brief of Respondent in Opposition

QUESTION PRESENTED

1. Whether review by this Court on certiorari is warranted, and whether petitioners may evade their unambiguous obligations to pay patent royalties pursuant to their written royalty contracts, for the use or the right to use portable hop picking machines purchased and used by them embodying numerous patents held by respondent, where the contracts as a matter of mutual convenience in financing arrangements provided that the royalties should be payable over a future period of 17 years, irrespective of the expiration dates of the various patents involved, and the state courts have sustained the validity and enforcibility of the contracts.

STATEMENT OF THE CASE

This is *not* a federal court suit in equity to enjoin infringement of a patent, nor a government anti-trust suit. These are two consolidated state court actions at law to recover money judgments for unpaid balances of patent royalties based on written royalty contracts between the parties, for the use or the right to use portable hop picking machines purchased and used by the defendants-petitioners.

The machines embody numerous patents held by plaintiff-respondent Thys Company, hereinafter referred to as Thys or respondent. As a matter of mutual convenience in financing arrangements, the contracts provided that the royalties in the sum of $3.33⅓ per 200 pound bale of hops, with an annual minimum royalty of $500.00, plus the state excise tax, should be payable over a future period of 17 years, irrespective of the expiration dates of the various patents involved. This was mutually agreed upon as a matter of mutual convenience in financing arrangements, so as to give the contract purchasers, including petitioners, the substantial benefit of a longer period of time over which to spread the payment of the agreed royalties, thus reducing the amount which would have been otherwise payable annually, and also providing a uniform and non-discriminatory payment period for all machine purchasers, irrespective of the date of purchase.

The trial court entered judgment in favor of re-

spondent, and this was unanimously affirmed by the Washington State Supreme Court.

The royalty contracts are quoted in the defendants' petition for certiorari, appendix C, pages 41a to 55a. They show on their face the date of issuance of the various patents involved. The machine purchasers are presumed to have known that each patent expired 17 years thereafter. In addition to listing the 12 specific patents of respondent, the same also stated "other patents pending." There were then three patent applications pending, upon which patents were subsequently issued to Thys, and the same have not expired. Four other picking machine patents were subsequently applied for and issued to Thys, and they have not expired.

The issues arise entirely upon the defendants-petitioners' affirmative defenses pleaded in their answers, as eventually amended in the middle of the trial. As to these affirmative defenses, the petitioners of course had the burden of proof. Both state courts have now held—and clearly held correctly—that the petitioners have failed to sustain their burden of proof as to any of these affirmative defenses.

These hop picking machine inventions were made and patents obtained by Thys as a result of a great deal of experimental research, work, time, effort and expense. (St. 19, 41-43, 68, 87, 131, 132). (All evidentiary record citations herein are to the typewritten pages of the court reporter's transcribed statement of

facts, as the same has not been printed.) The original purchase price covered only Lindeman's manufacturing costs and profit but did not include any compensation to Thys for the use of the patented inventions. The hop farmer purchasers could not afford to pay the full amount of purchase price and royalties as reimbursement therefor at the time of delivery of the machines. In fact the more liberal the financing arrangement and the longer the period of time—17 years—allowed in which to pay the royalties, the more advantageous for the farmers. No interest was charged prior to the annual royalty maturity dates. In this manner the hop farmers could pay the royalties over a period of years out of their savings in labor costs by the use of the hop picking machines. (St. 57, 62-3, 76-7, 132-4).

Originally the agreed royalty was $5.00 per bale for a 17 year period with a $500.00 annual minimum. Thereafter there was temporarily such a demand for such machines (especially during World War II) that Thys voluntarily made a concession and reduced the royalty to $3.33⅓ per bale, with a minimum annual royalty of $500.00. Rather than reduce the term of payment, it was considered preferable and for the best interests of the machine purchasers to continue for the same 17 year term, but to reduce the annual royalty rates. (St. 70-72, 132, 133).

It is undisputed that petitioners never sought or requested a license as to part but not all of the Thys pat-

ents listed in the contracts. Thys never insisted that a license be accepted as to all or none of the patents. Thys never refused to grant a license under any one or more of the patents to anyone who refused to take a license under all of them. Thys was merely licensing the right to use a particular machine and without additional charge threw in all of the patents he had, irrespective of whether or not they were actually used or incorporated in the machine at that particular time. (St. 57, 58, 129-131).

Thys included all twelve of his issued picking machine patents and also all of his pending patent applications so that these machine purchasers would have the right, if they so desired, to later incorporate in their machines any features or improvements covered thereby. This was done by numerous machine purchasers. These improvements were available for use in any of the machines and were actually incorporated in petitioners' machines as well as others. (St. 122-128). No additional royalty charge whatever was made by reason of the inclusion thereof in the contracts. The total of seven such patents were subsequently issued to Thys pursuant to said pending patent applications and are still existing and unexpired. (St. 67, 74, 116-129, 137-139).

Thys listed all 12 of his issued patents in the license contracts for two reasons: (1) to protect the machine purchasers against any possible claim on the part of

anyone that there was an infringement of any existing patent, and (2) frequently the machine purchasers later desired to add improvements and additional parts, such as supplementary cleaning equipment, to the picking machines, and it was desired to avoid any possible claim of patent infringement by reason thereof. (St. 129-131).

In paragraph 7 of the findings of fact the trial court found:

> "*The plaintiff was not guilty of any misuse of its patent rights.*" (Tr. 19-25)

No error has been assigned by petitioners to this or any other finding of fact or conclusion of law made by the trial court.

No portable hop picking machines have been manufactured or sold new since 1947 because there was insufficient demand therefor. There was insufficient profit therein to induce either Thys or any prospective competitor to do so. Subsequently purchasers of new machines have desired stationary rather than portable machines. However, Thys has never suppressed competition nor sought a monopoly. In fact there has been no monopoly at all as to hop picking machines. (St. 42, 76, 77, 111).

ARGUMENT

1. The Decision Below Is Clearly Correct

The issue in the present case is uniquely narrow, and no amount of strained semantics can convert it

into one warranting review by this Court on certiorari. Manifestly there is here no important question of federal law requiring or warranting decision by this Court. After a careful consideration of the evidence and the applicable authorities the trial court clearly concluded that the defendants-petitioners had failed to sustain their burden of proof on any of their affirmative defenses, and consequently entered judgment in favor of the plaintiff respondent. This was unanimously affirmed in the departmental opinion of the Washington State Supreme Court. *Thys v. Brulotte*, 162 Wn. Dec. 281, 382 P. 2d 271. Thereafter petition for rehearing was denied. On these individual facts hereinabove summarized, the decision of the Supreme Court of the State of Washington affirming the trial court's judgment was manifestly correct.

Each contract on its face showed the date of issue of each of the twelve listed patents. (Ex. 1, 3). Each licensee is charged with the legal knowledge that each patent expires 17 years thereafter. In order to avoid unfair discrimination between different licensees, Thys adopted the plan that each license royalty period would be for a uniform 17 years from date of each contract, irrespective of the patent expiration dates. Any other method would have unfairly discriminated against the earlier licensees.

Originally each contract provided for a royalty of $5.00 per 200 pound bale of dried hops for a 17-year

period, subject to a minimum royalty of not less than $500.00 per year, plus taxes, if any. Several years later (and prior to the execution of these two contracts) as a result of the then heavy demand for these Thys portable hop picking machines and their widespread commercial success, Thys decided to make a substantial concession voluntarily as to royalties. This could have been done by shortening the royalty period. However, actually it was done by leaving the 17-year royalty period the same and reducing the annual royalty from $5.00 to $3.33⅓ per bale, the $500.00 annual minimum plus taxes remaining the same. This was readily agreed to by the machine purchasers because the purpose and intention of this agreement was to give hop growers more time for financing purposes to pay the original cost plus the royalty charges on their machines. Otherwise for many less affluent hop growers the expense would have been prohibitive unless spread out over as lengthy a period as 17 years. This enabled the hop growers to pay the royalties out of the savings and economies in machine operation as contrasted with the former system of picking hops by hand. Obviously this arrangement promoted the mutual convenience of the parties and was especially beneficial and advantageous to the machine users. The licensees were not injured, as this resulted in giving them a longer period of time in which to pay off without interest the royalty indebtedness, which was certainly for their financial benefit.

A further conclusive answer to this contention is that, as testified by Thys, at least three patents subsequently issued, namely, Ex. 22, 23, and 25, are incorporated, used, and included in these license royalty contracts under the term "other patents pending." (St. 67, 74, 116-129, 137-139). These subsequently issued patents of course have not yet expired. At least two of these subsequent patents are applicable to each petitioner herein. Also, this clause included four other patents which were subsequently applied for and issued and which likewise have not yet expired.

When these contracts were prepared and executed, the legal authorities were unanimous in sustaining their validity. Under these circumstances it would now be a gross and flagrant miscarriage of justice if it were to be judicially determined that the same are invalid. Certainly there is nothing against public policy in permitting the parties a wide range of desirable freedom of contract in accordance with local state laws. The decision below is clearly correct, is in accord with at least the great weight of authority, and is based on sound reason and principle.

As hereinabove stated, this is a state court action at law to recover unpaid balances of patent royalties pursuant to written royalty contracts. It is not a federal equity suit to enjoin infringement of a patent nor to enjoin a violation of the anti-trust laws. However, with one possible exception (Ar-Tik), none of the

cases cited by petitioners are actions of this nature to recover royalties.

A reversal of these judgments would be contrary to the controlling decisions of this Court on this subject. The leading case is this Court's decision in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 94 L. ed. 1312, 70 S. Ct. 894, (1950), rehearing denied, 340 U.S. 846, 95 L. ed. 620, 71 S. Ct. 13, which affirmed (C.A. 1) 176 F. 2d 799, affirming 77 F. Supp. 493. This decision was five years subsequent to *Scott Paper Company v. Marcalus Manufacturing Co.*, 326 U.S. 249, 90 L. ed. 47 (1945), and if there be any inconsistency between them, the latter Hazeltine decision is controlling. The latter was an action, as in this case, brought by Hazeltine, the plaintiff licensor, to recover on a license royalty contract. The contract contained a long list of plaintiff's patents which the defendant, a manufacturer of radio receivers, was licensed to use in homes, for educational purposes, and private non-commercial use. As the agreed royalty, defendant agreed to pay a certain percentage of its gross sales of radio equipment, subject to an agreed minimum royalty of $10,000.00 per year. The case was so clear that the district court granted a summary judgment in favor of the plaintiff pursuant to said royalty contract, and this was affirmed by both appellate courts.

At page 496 the district court said:

> "*This is a convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of defendants' product embodies any of the hundreds of patents which plaintiff controls. There is nothing inherently illegal in such an arrangement. (Citing cases) And non-use of the patents is not a defense to an action on the contract. . . . It being itself a valid contract, collateral activities of the plaintiff do not render it unenforceable." (Citing cases.) (All italics herein are ours.)

This was quoted with approval by Judge Magruder speaking for the Court of Appeals at page 804, and the court added:

> "There is no valid objection to this sort of agreement; the parties are free to bargain as to the basis upon which the royalties are to be computed." (Citing cases.)

In affirming this decision, this Court at 339 U.S. 833-4, 94 L. ed. 1318-9 said:

> "The licensing agreement in issue was characterized by the District Court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties. *Payment for the privilege is required regardless of the use of the patents.* The royalty provision of the licensing agreement was sustained by the District Court and the Court of Appeals on the theory that it was a *convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents. . . . The Court of Appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege. . . . Numerous District Courts which have had occasion to pass

on the question have reached the same result on similar grounds, *and we are of like opinion. . . .*

"*We cannot say that payment of royalties according to an agreed percentage of the licensee's sales is unreasonable.* Sound business judgment could indicate that such payment represents *the most convenient method* of fixing the business value of the privileges granted by the licensing agreement."

The decision of this Court in the *Hazeltine* case is directly in point and sustains the validity of these contracts under these circumstances as a convenient method of permitting these hop farmers to finance their mechanical hop picking operations out of the savings due to the use of their machines over a 17-year period.

Also as this Court said in *United States v. Masonite Corp.*, 316 U.S. 265, 86 L. ed. 1461, 62 S. Ct. 1070:

"... The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

In the leading case of *United States v. General Electric Company*, 272 U.S. 476, 71 L. ed. 362, Chief Justice Taft speaking for a unanimous Court said:

"Conveying less than title to the patent or part of it, the patentee may grant a license to make, use use and vend articles under the specifications of his patent *for any royalty or upon any condition the performance of which is reasonable* within the reward which the patentee by the grant of the patent is entitled to secure. . .

"*We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.* . . . ."

"The very object of these laws is monopoly and the rule is with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 86 L. Ed. 1408, 62 S. Ct. 1088, Chief Justice Stone speaking for this Court unanimously clearly pointed out this fundamental distinction, saying:

"We have no question here of what other stipulations, for royalties or otherwise, might have been exacted as a part of the entire transaction, which do not seek to control the disposition of the patented article after the sale."

As well stated by the state Supreme Court in the decision below herein:

"The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are *E. R. Squibb & Sons v. Chemical Foundation, Inc.*, 93 F. 2nd 475; *Starke v. Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882; (affirmed on same opinion [C.A. 6] 283 F. 2d 117); *Tate v. Lewis*, 127 F. Supp. 105; *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906; and *Six Star Lubricants Co. v. Morehouse*, 101 Colo. 491, 74 P. 2d 1239."

Among numerous other authorities to the same effect are: *Ellis Patent Licenses* (3 ed.) 118, sec. 98A, and

128, sec. 109; 69 *C.J.S.*, 780, 801-2, sec. 252, 262; 48 *C. J.* 271, sec. 428; *Bettis Rubber Co. v. Kleave*, 104 Cal. App. 2d 821, 233 P. 2d 82, 84; *Adams v. Dyer*, 129 Cal. App. 2d 160, 276 P. 2d 186; *Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co.*, 44 F. Supp. 396; and *Walker, Patents*, p. 456 (1961 Supp. to Vol. II Deller's ed.)

Freedom of contract under the state law should especially be permitted in a situation such as this, where all parties knew what they wanted, namely the right to purchase and use a certain, single, definite patented machine—and this they received. There is no contention or evidence showing any coercion or duress. The financial reward of the inventor was spread over a period of years, which was primarily for the benefit of the farmers.

Consequently, there was here no patent misuse, as correctly held by the state courts. Moreover, in any event this would not be a defense in a state court action at law to recover on a written royalty contract, as it is based upon the equity doctrine of unclean hands and is applicable only to federal equity patent infringement injunction suits.

Respondent has made no attempt to extend its *monopoly* of any patent beyond the 17-year period. Consequently, cases pertaining to that question are clearly distinguishable.

In *Thys v. State of Washington*, 31 Wn. 2d 739, 199

P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, involving the same contract, the court held that these subsequent royalties were part of the legitimate reward of Thys for his research as an inventor and the same were properly considered a part of the purchase price and hence subject to the Washington state sales tax, and until full payment of the royalties the patentee had not received its lawful reward for the use of the patented article.

2. Answer to Petitioners' Arguments

A. The Cited Statutes Are Clearly Not Applicable.

At page 2 petitioners invoked the jurisdiction of this Court under 28 U.S.C. sec. 1257 (3). We submit, however, that this statute is not applicable at all. As the validity of a federal or state statute is not involved, this statute is applicable only "where any title, right, privilege, or immunity is specially set up or claimed under the Constitution, treaties or statutes of, or commission held or authority exercised under, the United States". We submit that this is not such a case. As well stated in sec. 205 of the U.S.C.A. annotation thereto:

> "*Patent Laws.* A suit on a contract of which a patent is the subject-matter, either to enforce such contract or to annul it, where the decision of the state court is based upon the contract, *does not present a federal question.*" (Citing cases)

In *Dale Tile Mfg. Co. v. Hyatt*, 125 U.S. 46, 31 L. Ed. 683, 8 S. Ct. 756, an action arising in a state court

to recover patent royalties on a contract as in this case, this Court said:

> "But it is clearly established by a series of decisions of this Court that an action upon such an agreement as that here sued on *is not a case arising under the patent laws*. . . .Where a suit is brought on a contract of which a patent is the subject-matter, either to enforce such contract or to annul it, the case arises on the contract, or out of the contract, and not under the patent laws."

In *Luckett v. Delpark*, 270 U.S. 496, 503, 70 L. Ed. 703, 705, Chief Justice Taft speaking for this Court said:

> "We do not think that this suit arises under the patent laws. Its main and declared purpose is to enforce the rights of the plaintiff under the contract with defendants for royalties. . . . It is a general rule that a suit by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use of a patent, is not a suit under the patent laws of the United States.

See also to the same effect: *Odell v. Farnsworth Co.*, 250 U.S. 501, 504, 63 L. Ed. 1111; *Felix v. Scharnweber*, 125 U.S. 54; *Brooks v. Missouri*, 124 U.S. 294; *Wood Machine Co. v. Skinner*, 139 U. S. 293; and *Jacobi v. Alabama*, 187 U.S. 133.

None of the statutes cited by petitioners in appendix B (p. 39a) are applicable. 35 U.S.C. sec. 154 is not applicable as respondent has never attempted to extend its *monopoly* of a patent nor to *exclude others* from making, using or selling the invention of a patent after its expiration.

Sec. 1 and 2 of the Sherman Anti-Trust Act as amended, 15 U.S.C. sec. 1 and 2, are clearly not applicable as, aside from lawful patent monopoly rights, respondent has not engaged in any contract, combination or conspiracy in restraint of interstate commerce, nor has it monopolized the hop picking machine industry. The competition from stationary hop picking machines is terrific. Clearly respondent has not violated any anti-trust laws.

B. The Cited Cases Are Clearly Not Applicable

The petitioners' contentions are clearly not substantial and are without merit. The case principally relied upon, *Scott Paper Co. v. Marcalus*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (Pet. 3, 12), which was decided five years prior to Hazeltine, is clearly distinguishable. It was a suit to enjoin patent infringement and did not involve any royalty contract at all. Defendant had previously assigned to plaintiff the patent in suit. The Court merely held that the defendant assignor was not estopped by virtue of the assignment to defend a suit for infringement of the assigned patent on the ground that the patent was invalid and that the alleged infringing device was that of a prior art expired patent. Obviously no such question is involved herein.

American Securit Co. v. Shatterproof Glass Corp., (C.A. 3) 268 F. 2d 769, also strongly relied upon (p. 16) is likewise clearly distinguishable. It was not a royalty contract suit at all, but an action to enjoin pat-

ent infringement. It contains a brief dictum quoted by petitioners, but there was no discussion and no citation of any authority holding either way on this question. The fundamental basis of that decision was that it was a flagrant example of mandatory package licensing under an extreme factual situation, in violation of a consent decree previously entered against the plaintiff in an anti-trust suit brought by the federal government. Extensive negotiations had occurred between the parties, but in violation of said decree plaintiff arbitrarily refused to issue any license as requested by the defendant unless all of the patents were included in the license at an excessive royalty rate. Manifestly there is no such factual situation here.

Ar-Tik System, Inc. v. Dairy Queen, Inc., (C.A. 3) 302 F. 2d 496 (Pet. 8, 11, 15), is also factually dissimilar as the contract required payment of royalties *indefinitely throughout the life of the machines sold*, and this was held to be a misuse of patents. Circuit Judge McLaughlin dissented. The majority expressly recognized that their decision was contrary to numerous cases cited therein and contrary to the great overwhelming weight of authority. These contracts had fully expired prior to that decision. The same is clearly unsound and should not be followed.

Technograph Printed Electronics, Inc. v. The Bendix Corp., 218 F. Supp. 1 (Pet. 9, 10, 15) was merely a trial court decision which we understand is now on

appeal in the 4th Circuit. A decision as to whether it should be reviewed by this Court would certainly be premature at this time without the benefit of the appellate court's decision therein. It likewise was not a royalty action, but a patent infringement suit. Moreover the statement relied upon was pure dictum, as the court held that the patents were invalid and were not infringed. The court did not mention any of the numerous authorities in our favor nor even the Ar-Tik case which cites them. The court held that additional evidence would be necessary before a definite ruling could be made on this question. The case is therefore clearly distinguishable.

These cases are discussed in 31 Geo. Wash. Law Rev. 535, in which the final footnote 37 cites Hazeltine and as pointed out in the decision below, correctly answers the problem:

> "It would seem that in some situations such an agreement might be *justifiable as a convenient method of operation because of its extension of royalty payments over a period of time.* . . . Such a payment method also may be advantageous for tax reasons. But in the principal case, as testified to by the president of Ar-Tik Systems, the royalties were *payable indefinitely.* . . . Thus it could not be considered merely *a convenient method of payment.*"

This case is clearly distinguishable upon its facts from the allegedly conflicting decisions cited in the petition, and the decision herein really turns upon these factual differences. Consequently there is no substantial ground for the allowance of the writ.

As well stated by Judge Parker in *Saco-Lowell Shops v. Reynolds*, (C.A. 4) 141 F. 2d 587, 596, an action to recover royalties as in this case:

> *"The liability of the defendant for royalties, however, is to be determined by the terms of the contract, not by technical considerations of patent law."*

The Saco case was approved and followed in *Reynolds Metals Co. v. Skinner*, (C.A. 6) 166 F. 2d 66, 73, certiorari denied, 334 U.S. 858, 92 L. Ed. 1778, 68 S. Ct. 1528, an action to recover royalties, in which Judge Allen speaking for the court said:

> "The controversy involves not a question of infringement, but a question of royalties due under a contract. Technical considerations of patent law are therefore not controlling. . . . *The rules announced in infringement cases such as Scott Paper Co. v. Marcalus Mfg. Co., Inc., . . . have no bearing here."*

To the same effect are: *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 58; *Carbo-Frost, Inc., v. Pure Carbonic, Inc.*, (C.A. 8) 103 F. 2d 210, 223; *Ekins v. Auto Arc-Weld Mfg. Co.*, (Ohio) 175 N.E. 2d 221, 235-6.

C. The Tie-In Cases Are Clearly Not Applicable.

These cases (Pet. 3, 18-20) are expressly distinguished by this Court in Hazeltine and are not applicable herein. There is here no requirement by Thys that the licensees use in the operation of these machines any unpatented materials sold by him. Those were not even royalty contract cases, and as pointed out in both decisions below, they have no bearing on the present issue.

The following authorities, where this same defense was definitely overruled, clearly establish that this contention of the petitioners has no merit whatever as applied to this factual situation: *Great Lakes Equipment Co. v. Fluid Systems, Inc.*, (C.A. 6) 217 F. 2d 613; *Electric Pipe Line, Inc. v. Fluid Systems, Inc.* (C. A. 2) 231 F. 2d 370 and 250 F. 2d 697; and *Stearns v. Tinker & Rasor*, (C.A. 9) 252 F. 2d 589, cert. den. 350 U.S. 830.

D. Mandatory Package License Cases Are Not Applicable

When carefully read, these royalty contracts provide that in order to use these machines embodying the Thys patents, a license and royalty payment are necessary, but they do not require compulsory package licensing. As pointed out in the decision of both courts below, the facts simply fail to support this contention. Neither petitioners nor any other licensee has ever requested that respondent issue a license for less than all of its patents. Respondent has never, either on the face of the contracts nor in actual practice, made any requirement that a license must be obtained under all of the patents. No additional royalty was ever charged. A mere gratuitous listing of all Thys' patents is not illegal, especially where only one single known machine is involved. The reasons were to avoid any patent infringement claims against any licensee and to give them the privilege of incorporating additional inven-

tions and devices in their machines if they so desired. The petition disregards the undisputed evidence and the findings of both lower courts and is wholly unsupported. The cases cited, such as *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11, and *United States v. Paramount Pictures*, 334 U.S. 131, 92 L. Ed. 1260, are clearly distinguishable on their facts, and none of them was a royalty contract case.

3. Since Scott No Conflict of Decision In the Circuits.

Subsequent to this Court's 1945 decision in Scott and 1950 decision in Hazeltine there has been no conflict of decision in the federal circuits on this question. We submit that certiorari review by this Court would be wholly unwarranted at least until and unless subsequently a case arises in the federal courts where there is such a conflict of decision in the circuits. The present petition is therefore wholly premature, both generally speaking and with reference to the Technograph litigation.

Moreover, this is primarily a question of state contract law rather than federal law, and consequently such conflict, if any, would be immaterial in any event. As this Court recently stated in *Ruhlin v. N. Y. Life Insurance Co.*, 304 U.S. 202, 206, 82 L. Ed. 1290, involving construction of insurance contracts under the state law:

"As to considerations controlled by state law,

> conflict among circuits is not of itself a reason for granting a writ of certiorari. The conflict may be merely corollary to a permissible difference of opinion in the state courts."

4. No Important Substantial Federal Question Involved.

This Court has previously denied certiorari in most of the federal court of appeals cases cited by petitioners. Apparently these questions were not considered sufficiently important to justify review by this Court. The same remains true at this time. The issue is one of state contract law. There is no picking machine monopoly or anti-trust law violation involved. The decision below turns upon its own facts and will affect few other than the litigants themselves and other Thys licensees.

The only authority cited by petitioners (Pet. 3) that this is a federal question is *Scott Paper Co. v. Marcalus*, 326 U.S. 249, 255. However, as hereinabove mentioned that was not a royalty contract case at all, but was a federal court patent infringement suit. Immediately preceding their quotation appears the following:

> "Sec. 24 (7) of the Judicial Code . . . confers on district courts of the United States jurisdiction of causes arising under the patent laws."

As hereinabove mentioned, this Court has repeatedly held that a royalty contract suit does not arise under the patent laws. Consequently Scott involved a substantial federal question, but this action does not.

This case involves considerations which in this type

of factual pattern are not likely to recur in other cases. The case also would require the resolution of questions of fact which were decided adversely to the petitioners in the lower courts. The same does not involve "a federal question of substance," and there are not "special and important reasons" for granting the writ, as required by Rule 19. *Rice v. Sioux City Memorial Park Cemetery*, 349 U.S. 70, 99 L. Ed. 897, 75 S. Ct. 614; *Layne v. Western Well Works, Inc.*, 261 U.S. 387, 393, 67 L. Ed. 712, 43 S. Ct. 422.

As hereinabove shown, the decision below rests on adequate grounds of local state contract law which do not arise under the federal patent laws. Consequently it is well settled that the discretionary writ of certiorari should be denied. *Black v. Cutter Laboratories*, 351 U. S. 292, 100 L. Ed. 1188, 76 S. Ct. 824; *Durley v. Mayo*, 351 U.S. 277, 100 L. Ed. 1178, 76 S. Ct. 806; *Cramp v. Board of Public Instruction*, 368 U.S. 278, 7 L. Ed. 2d 285, 82 S. Ct. 275.

The petitioners' contentions are therefore clearly untenable and cannot convert a correct decision as to local state contract law into an important federal question of substance.

CONCLUSION

Accordingly for the foregoing reasons it is respectfully submitted that the petition for a writ of certiorari should be denied.

Respectfully submitted,
GEORGE W. WILKINS

ELWOOD HUTCHESON
Attorneys for Respondent

IN THE

Supreme Court of the United States

October Term, 1964

No. 90

Walter C. Brulotte and Cecilia Brulotte, his wife,

and

Raymond Charvet and Blanche Charvet, his wife,
Petitioners,

v.

Thys Company, *Respondent*

REPLY MEMORANDUM IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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INDEX

CASES CITED

IN THE

Supreme Court of the United States

OCTOBER TERM, 1963

No. 707

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife,

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY, *Respondent*

REPLY MEMORANDUM IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

I. INTRODUCTION

Compelling reasons for granting the petition appear on the face of the "Brief of Respondent in Opposition".[1]

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[1] Respondent's brief is cited herein as "R. Br. ——."

II. FEDERAL SUPREMACY IN THE PATENT FIELD

Respondent primarily contends that the decision below—*admittedly* in *conflict* with recent decisions of the federal courts—should be sustained as a proper exercise of *state authority* in the *contract field*.[2]

In Nos. 106[3] and 108[4] of this term, the question was whether a court, by *injunction* purporting to enforce a

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[2] Respondent frames its question in particular reference to the fact that

> ". . . the state courts have sustained the validity and enforcibility of the contracts." in suit. (R. Br. 1)

Elsewhere in its brief, respondent asserts:

> ". . . Certainly there is nothing against public policy in permitting the parties a wide range of desirable freedom of contract in accordance with local *state* laws." (R. Br. 9)

> ". . . this is a *state* court action at law to recover unpaid balances of patent royalties pursuant to written royalty contracts." (R. Br. 9)

> ". . . Freedom of contract under the *state* law should especially be permitted in a situation such as this . . ." (R. Br. 14)

> ". . . there was here no patent misuse, as correctly held by the *state* courts. Moreover, in any event this would not be a defense in a *state* court action at law to recover on a written royalty contract, as it is . . . applicable only to federal equity patent infringement injunction suits." (R. Br. 14)

> ". . . this is primarily a question of *state* contract law rather than federal law, and consequently such conflict [between the federal circuits], if any, would be immaterial in any event." (R. Br. 22)

> ". . . The issue is one of *state* contract law." (R. Br. 23)

> ". . . the decision below rests on adequate grounds of local *state* contract law . . ." (R. Br. 24)

[3] *Compco Corporation* v. *Day-Brite Lighting Co.*

[4] *Sears, Roebuck & Co.* v. *Stiffel Company.*

state law of *unfair competition,* could perpetuate the monopoly of an *invalid* design patent.

In *this* case, the questions presented involve the issue of whether a court, by application of the *state law* of *contract,* can perpetuate an important portion of the monopoly of an expired patent—i.e., the right to collect royalties for the right to use the once-patented invention.

This petition should be granted for the same reasons as the petitions were granted in Nos. 106 and 108—to further define the scope of federal supremacy in the field of patents and to insure that the public enjoys the unqualified free right to use inventions released from a patent monopoly.

III. "CONFLICTING" DECISIONS OF THIS COURT

Respondent's brief emphasiz the confusion which exists in the lower federal courts and in the state courts with respect to the relationship between (1) the rule announced in *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), which *invalidates* post-expiration royalty contracts and (2) the decision in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.,* 339 U.S. 827, 70 S. Ct. 894, 94 L.Ed. 1312 (1950), which approved a specific mode of royalty payment for the right to use over 500 patents licensed as a package.

Respondent says:

> "A reversal of these judgments would be contrary to the controlling decisions of this Court on this subject. The leading case is this Court's decision in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* 339 U. S. 827, 94 L. ed. 1312, 70 S. Ct. 894, (1950), rehearing denied,

340 U.S. 846, 95 L.ed. 620, 71 S. Ct. 13, which affirmed (C.A. 1) 176 F.2d 799, affirming 77 F. Supp. 493. This decision was five years subsequent to *Scott Paper Company* v. *Marcalus Manufacturing Co.,* 326 U.S. 249, 90 L. ed. 47 (1945), and if there be any inconsistency between them, the latter Hazeltine decision is controlling." (R. Br. 10)

If *Automatic Radio* condones post expiration royalty contracts, it is in obvious conflict *not only* with *Scott Paper Co.,* which holds expressly to the contrary; *but also* with the earlier decisions of this Court on which *Scott Paper Co.* was based, including *Singer Manufacturing Co.* v. *June Manufacturing Co.,* 163 U.S. 169, 41 L.Ed. 118 (1896), and *Kellogg Co.* v. *National Biscuit Co.,* 305 U.S. 111, 117-120, 83 L.Ed. 73 (1938).

There is in fact no such holding in *Automatic Radio* —and there is no conflict in decision between *Automatic Radio* and *Scott Paper Co.*

It is *also* the fact, however, that the package of more than 500 patents embraced by the license in issue in *Automatic Radio included some patents which expired and some which were invalidated during the license term.*

It is *this* fact which has indeed given rise to the actual, widespread conflict in the decisions of the lower courts concerning the legality of post-expiration royalty contracts.[6]

In general, those courts—including the court below —which have *approved* post-expiration royalties, have found justification for such ruling in *Automatic Ra-*

[6] This conflict was the subject of footnote 17, page 21 of petitioners' opening brief.

dio.[6] In *contrast*, courts *condemning* post-expiration royalty contracts rely upon *Scott Paper Co.*

The petition should be granted to resolve this broad conflict in the lower courts which stems from the decisions of this Court in *Automatic Radio* and *Scott Paper.*

IV. THE ADMITTED CONFLICT IN DECISIONS

Respondent necessarily *admits* the conflict, emphasized at page 9 of the petition, between the decisions of the *Second* Circuit, including *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (2 Cir. 1937) on which the decision below was based, and the more recent decisions of the *Third* Circuit in *Ar-Tik Systems*[7] and *American Securit Co.*[8] and of the District Court for the District of Maryland in *Technograph.*[9]

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[6] As in the case at bar, *Automatic Radio* is usually supplemented by the line of cases originating in the Second Circuit and typified by *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (2 Cir. 1937).

[7] *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3 Cir. 1962)

[8] *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3 Cir. 1959)

[9] *Technograph Printed Circuits, Ltd.* v. *Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963). On January 17, 1964 the District Court decision in *Technograph* was affirmed, *per curiam*, by the United States Court of Appeals for the Fourth Circuit, as follows:

> "After careful consideration of the record, the arguments and the briefs of counsel, we are persuaded that the patent claims are invalid for obviousness in the light of the prior art for the reasons fully discussed in the opinion of the District Court. [citing lower court case] Affirmed."

Respondent asserts, however, that

> "Subsequent to this Court's 1945 decision in Scott and 1950 decision in Hazeltine there has been no conflict of decision in the federal circuits on this question." (R. Br. 22)

Respondent's contention accentuates the fact that the state courts—and many of the federal district courts[10]—are following the Second Circuit *Squibb* line of precedent.

This fundamental conflict in the lower courts, bottomed as it is upon a direct conflict in the federal circuits, should be resolved.

V. MANDATORY PACKAGE LICENSING

Respondent says:

> "When carefully read, these royalty contracts provide that *in order to use these machines* embodying the Thys patent, *a license and royalty payment are necessary, . . .*". (R. Br. 21)

The license which defendant admits was *necessary* expressly requires the payment of royalties on at least *five* patents which were *never embodied in the petitioner's machines.*[11] It necessarily follows that the

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[10] See the district court cases cited at pages 11 and 12 of the Petition, including *Tate* v. *Lewis*, 127 F. Supp. 105 (D. Mass. 1954); *Starke* v. *Manufacturers National Bank of Detroit*, 174 F. Supp. 822 (E.D. Mich. 959); and *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906 (D.N.J. 1947). cf. *Armstrong* v. *Emerson Radio and Phonograph Corporation*, 179 F. Supp. 95 (S.D.N.Y. 1959); and *Well Surveys, Inc.* v. *McCullough Tool Co.*, 199 F. Supp. 374 (N.D. Okla. 1961).

[11] Finding of Fact 7 of the trial court reproduced at Pet. App. A. 32a.

decision below is in direct conflict with the various decisions of this Court which preclude coercive package licensing. (Pet. pp. 20-23)

VI. CONFLICT WITH THE "TIE-IN" CASES

The subject matter of an expired patent belongs to the public. The contracts in suit admittedly require the payment of tribute for the right to use such *unpatented* subject matter. The "tie-in" cases expressly foreclose all such agreements. (Pet. pp. 18-20)

The cases cited at page 21 of respondent's brief definitely did *not* overrule "this same defense". (R. Br. 21) If these cases are subject to any such construction, the petition should be granted to resolve the resulting conflict with the controlling decisions of this Court.

VII. THE COURT BELOW IMPROPERLY REFUSED TO BE GUIDED BY FEDERAL LAW ON THE FEDERAL QUESTIONS PRESENTED

Underlying the admitted conflict between the federal and state courts on the questions raised by the petition is a basic question of principle involving federal supremacy in the field of federal law.

The court below dismissed the Third Circuit decision in *Ar-Tik Systems*[12] with the observation that it was

> "... not obligated to follow decisions of the lower federal courts. Lamb v. Railway Express Agency, 51 Wash. 2d 616." [13]

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[12] *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3 Cir. 1962)

[13] The quotation is from footnote 2 of the Opinion of the Supreme Court of Washington. (Pet. App. A., p. 17a)

Respondent contends here, as it obviously did below, that the misuse and antitrust issues presented by the petition are

> ". . . primarily a question of state contract law rather than federal law, . . ." (R. Br. 22)

Respondent says that misuse

> ". . . would not be a defense in a state court action at law to recover on a written royalty contract, as it is . . . applicable only to federal equity patent infringement injunction suits." (R. Br. 14)

This ruling of the court below and these contentions of respondent are in the teeth of the controlling decisions of this Court.

In *Scott Paper Co.,* this Court said:

> ". . . The nature and extent of the legal consequences of the expiration of a patent are Federal questions, the answers to which are to be derived from the patent laws and the policies which they adopt."

This Court repeatedly has emphasized that in matters involving federal policy, the federal law is supreme and the state laws must yield. In *Sperry* v. *Florida,* 373 U.S. 379, 10 L.Ed. 2d 428 (1963), this Court stated:

> "But 'the law of the State, though enacted in the exercise of powers not contravened, must yield' when incompatible with federal legislation. Gibbons v. Ogden (US) 9 Wheat. 1, 211, 6 L ed 23, 73." (10 L.Ed. 2d at 432)

In *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, 87 L.Ed. 165 (1942), this Court said:

> "... When a federal statute condemns an act as unlawful, the extent and nature of the legal consequences of the condemnation, though left by the statute to judicial determination, are nevertheless federal qeustions, the answers to which are to be derived from the statute and the federal policy which it has adopted. To the federal statute and policy, conflicting state law and policy must yield.
>
> * * * * * * * *
>
> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. Morton Salt Co. v. G. S. Suppiger Co., 314 US 488, 492, 493, 86 L ed 363, 365, 366, 62 S Ct 402." (87 L.Ed. at 168-169)

In the case at bar the federal patent laws and the federal antitrust laws invalidate the post-expiration royalty contracts in suit as a matter of public policy. In these circumstances, the state laws must yield.[14]

[14] *If* the cases cited at pages 20-21 of respondent's brief in fact stand for the proposition that misuse and antitrust violation are not proper defenses to an action to enforce a royalty contract, they would be in conflict with the foregoing decisions of this Court. The fact, of course, is that these cases do not stand for any such proposition. The issue in each of such cases was whether the subject matter involved was within the scope of the contract in suit and the courts pointed out that the rules applicable to determination of the question of infringement should not be applied.

This petition should be granted in view of the departure of the court below from the controlling principles defined by this Court.

VIII. CONCLUSION

This case manifestly involves "principles, the settlement of which is of importance to the public as distinguished from that of the parties . . .". There is, on the issues raised by the petition, "a real and embarrassing conflict of opinion and authority between the Circuit Courts of Appeal." The state court below has indeed "decided a federal question of substance . . . in a way probably not in accord with the applicable decisions of this court." In these circumstances, the Petition for a Writ of Certiorari should be granted. *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 99 L.Ed. 897, 75 S.Ct. 614 (1954); *Layne* v. *Western Well Works, Inc.,* 261 U.S. 387, 393, 67 L.Ed. 712, 43 S.Ct. 422 (1923).

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

BRIEF FOR PETITIONERS

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THYS COMPANY, *Respondent*

BRIEF FOR PETITIONERS

CITATIONS TO OPINIONS BELOW

The memorandum opinion of the Superior Court of the State of Washington in and for Yakima County (R. 82-89) is unreported. The opinion of the Supreme Court of the State of Washington (Department One) (R. 106-114) is reported at 62 Wn. 2d 284, 382 P. 2d 271, 138 U.S.P.Q. 411 (1963).

JURISDICTION

The final judgment of the Supreme Court of the State of Washington (Department One) was entered on October 4, 1963 (R. 106-115). A petition for rehearing *en banc* was denied October 4, 1963 (R. 116). The petition for a writ of certiorari was filed on December 26, 1963 and was

granted on February 17, 1964. The jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1257(3).

QUESTIONS PRESENTED

1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public.

2. Whether it is a misuse or an antitrust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

This case involves Article 1, Sec. 8 of the Constitution of the United States, 35 U.S.C. Sec. 154 and 15 U.S.C. Secs. 1 and 2, (App. A, *infra*, p. 36, 37). The case also involves the public policy of the patent laws of the United States as delineated by this Court.

STATEMENT

These consolidated cases are actions by Respondent for the collection of royalties under certain sale and patent licensing contracts with Petitioners. The contracts require payment of post-expiration or post-invalidation royalties for the right to use the inventions of eleven of the twelve patents specifically identified therein. The court below held that the contractual extension of the patent monopolies by the post-expiration royalty provisions was neither a misuse nor a violation of the antitrust laws.

The decision below is in error. These cases present an aggravated form of patent misuse and antitrust violation accomplished by license agreements which extend the statutory monopoly beyond its legitimate scope.

Petitioner Walter C. Brulotte and his wife Cecelia, and Petitioner Raymond Charvet and his wife Blanche, are hop farmers resident in Yakima County, Washington.

Respondent Thys Company, a California corporation, is the sole domestic manufacturer of portable hop-picking machines (R. 49). During the period from about 1941 (R. 46) to about 1947 (R. 47), Respondent caused to be manufactured some 215 portable hop-picking machines.[1] Since about 1943, Respondent has been engaged in the business of supplying such portable hop-picking machines to the trade pursuant to similar "sale and license" form agreements (R. 43, 54-55).

With respect to the new portable hop-picking machines, Respondent entered into two-party agreements with the original "purchasers" (R. 45, 54-55). These two-party contracts provided for the passage of bare title only to the purchaser.[2] These same agreements further provided that "in order to use said machine(s)" the purchaser "*must secure*"[3] from Respondent a royalty-bearing license, included as a part of the agreements, under a package of

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[1] Respondent built about fifteen portable hop-picking machines in California (R. 40) and contracted with the Lindeman Power Equipment Company of Yakima, Washington, for the manufacture of some 200 additional machines (R.45). These machines were sold for use inter alia in Washington, Oregon, California, New York and in foreign countries (R.45).

[2] The "title" vested in Petitioners was indeed "bare". Petitioners were required by paragraph 10 of the contracts to "use coir yarn or other twine satisfactory" to Respondent in the operation of the portable hop-picking machines and to pay royalties "whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed" in patent 2,114,712 be employed.

The opinion of the court below (R. 107-108) details further obligations imposed upon Petitioners by the contracts. Among such obligations are an agreement (1) not to contest validity of the patents and not to assign the agreements or any interest therein, (2) not to permit the purchased machines to become subject to any lien or encumbrance, (3) not to permit the machines to be seized or levied upon by process of law without prior written consent, (4) not to permit their removal from the county of Petitioners' residence, (5) to maintain the machines in a "good state of repair, to replace all wornout parts, (6) to pay all taxes on the machines and (7) to maintain insurance against loss or damage by fire, theft and collision" equal to the full insurable value of the machines.

[3] See paragraph 6 of the contracts in suit reproduced infra, page 5.

twelve patents identified by number and other unidentified "patents pending".

In the event of a subsequent "sale" by the original "purchaser", a three-party or "transfer" agreement was consummated between Respondent, the original "purchaser" and the new "owner" (R. 44-45, 54-55). All of the original sale or two-party agreements and all of the "transfer" or three-party agreements included the same sale, licensing and royalty provisions as the Petitioners' contracts. The trial court stated:

> "It is further agreed that the form contracts used covered portable hop-picking machines and that the contracts were uniform with other contracts used whether they were three-party contracts or two-party contracts. The contracts purport to pass title to the machines to the defendants but provide that they shall not be used except under licenses specified in the contracts which also provide for payment of royalties. See sections 6, 7 and 8 of contracts (Exhibits 1 and 3." (R. 83).[4]

On August 10, 1948, Petitioner Brulotte entered into the "transfer" agreement here in suit. (R. 70-73) with respect to a certain portable hop-picking machine identified as 44-L-59. The parties to that transfer agreement are Respondent, Petitioner Brulotte and his wife, and the former owner of machine 44-L-59, Yakima Chief Ranches, Inc., of Mabton, Washington.

The Brulotte transfer agreement typically provides in paragraph 2 for the payment by Brulotte to the former "owner", Yakima Chief Ranches, of some $3,125.00 for "title" to the hop-picking machine in question.[5]

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[4] "Exhibit 1" is the Brulotte contract (R. 70-73) in suit; "Exhibit 3" is the Charvet contract (R. 78-81) in suit.

[5] The Brulotte contract reproduced at pages 70-71 of the record refers in paragraph 1 to two hop-picking machines identified as 44-L-55 and 44-L-59. The first of these machines, 44-L-55, was "sold" by Petitioner Brulotte on the 12th day of August 1952, to Herke Bros. of Tampico, Washington, by another "transfer" agreement identical in form with the Brulotte agreement. That agreement is reproduced at pages 74-75 of the record. By reason of the transfer of the portable hop-picking machine identified as 44-L-55 from Petitioner Brulotte to Herke Bros., that machine is not specifically-involved in this litigation. (R. 29).

Paragraphs 5, 6 and 7 of the form agreement provide:

"5. Title to said machine(s) shall vest in Second Party (Brulotte) on deliver of said machine(s) to Second Party (Brulotte) by Third Party (Yakima), but the *vesting of title* to said machine(s) in Second Party (Brulotte) *shall not license* Second Party (Brulotte) *to use* said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.[6]

"6. It is expressly understood that the sale and/or delivery of said machine(s) is *without the right to use said machine(s)* and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that *in order to use said machine(s)* and/or said methods and processes Second Party (Brulotte) *must secure* from First Party (Respondent) *a license* to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

"WHEREFOR, First Party (Respondent) hereby grants to Second Party (Brulotte) a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of (sic) which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

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6 Unless otherwise indicated, all emphasis is supplied.

U. S. Patent Number	*Date of Issue*	*Invention*
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

"7. The term of the license granted to Second Party (Brulotte) by First Party (Respondent), as provided in Paragraph 6 hereof, shall be from date first above written until completion of the 1958 harvest, irrespective of the date of expiration of any of the Letters Patent hereinbefore listed."

Paragraph 8 of the Brulotte contract provides for a minimum royalty of $500.00 per annum, or a running royalty of $3.33-1/3 per 200 pounds of dried hops harvested annually by the licensed machine, whichever is greater, for the full term of the contract, *i.e.*, "until completion of the 1958 harvest".[7]

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[7] In Thys v. State, 31 Wash. 2d 739, 199 P. 2d 68, cert. den. 337 U.S. 917, 69 S. Ct. 1158, 93 L. Ed. 1727 (1949), the Supreme Court of Washington held that the royalty income received by Thys was a part of the purchase price for the portable hop-picking machines and, hence, subject to the Washington State sales tax.

On January 31, 1951, Petitioner Charvet entered into a transfer agreement (R. 78-81) identical in form with the Brulotte contract. Pursuant to that contract Petitioner Charvet paid the former "owner", one Oliver Champoux, $3,300.00 for "title" to portable hop-picking machine No. 44-L-134. The Charvet agreement was effective as of January 31, 1951, and continued "until the completion of the 1960 harvest". At the time of the trial, Petitioner Charvet's machine No. 44-L-134 had "not been used or operated since 1952" (Finding of Fact 6, R. 95).[8]

The court below affirmed the decision of the trial court that the agreements could not be terminated by Petitioners until expiration of the stated term, as follows:

> ". . . the learned trial judge, in a very able memorandum decision, said:
>
> '. . .it appears to me that under the language of the contracts contained in paragraph six thereof, it was the intent of the parties that the contracts could only be cancelled at the election of he plaintiff in the event of default or (sic) payment of royalties. . . . The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term.'" (R. 113).

It is apparent from the face of the Petitioners' contracts that eleven of the twelve patents listed by number *expired* during the contract term. Indeed, all save one — patent 2,336,280 — had expired or been invalidated bv August 13, 1957, the date of expiration of patent 2,211,357 —two years prior to the termination of the Brulotte contract and four years prior to the termination of the Charvet

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[8] The Findings of Fact are to be accepted as correct. The Supreme Court of the State of Washington stated in its opinion:

> "No error is assigned to the findings of fact. All of the errors assigned pertain to the interpretation and effect of the contracts. . . ." (R. 108).

contract.[9] Finding of Fact 7 of the trial court states in pertinent part:

> ". . . It is admitted in the pleadings that seven and only seven of the twelve of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop picking machines, and all of those patents expired on or before 1957. . . . " (R. 95)[10]

By the contracts in suit, Respondent guaranteed that its royalty income — including that portion attributable to he eleven expired and invalidated patents — would continue at an undiminished rate for the full term of the agreements.

In other words, the monopoly of the expired and invali-

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9 Patent 2,226,009, which would have expired on December 24, 1957, was invalidated in **Thys Co. v. Anglo-California National Bank,** 111 F. Supp. 665 (N.D. Cal. 1953), **aff'd** 219 F. 2d 131 (9th Cir. 1955), **cert. den.** 349 U.S. 946, 75 S. Ct. 875, 99 L. Ed. 1272 (1955), **reh. den.** 350 U.S. 855, 76 S. Ct. 40, 100 L. Ed. 760 (1955). Patent 2,114,712 was invalidated in **E Clemens Horst Co.** v. **Oeste,** 114 F. Supp. 403 (N.D. Cal. 1953).

10 The same Finding of Fact 7 states with respect to "patents pending":

> " . . . Of the patents pending at the time the agreements were entered into one patent (Exhibit 22) was pending when both defendants' contracts were entered into and said patent does not expire until 1969. One patent (Exhibit 23) was pending as to Brulotte but not as to Charvet and is as yet unexpired; and one patent (Exhibit 25), was pending as to Charvet but not as to Brulotte and is as yet unexpired. Three patents were declared invalid by lower federal courts, namely Exhibit 6, a method patent, Exhibit 15 which was never incorporated into defendants' portable hop picking machines, and Exhibit 23 which was not listed by number in these contracts and was subsequently issued and was a patent pending as to Brulotte but not as to Charvet. . . . " (R. 95).

It stands admitted that the invalidated patents also were employed as a means of extracting royalty payments from Petitioners. The "Brief of Respondent in Opposition" to the Petition for the Writ of Certiorari states:

> ". . . as testified by Thys, at least three patents subsequently issued, namely Ex. 22, 23 and 25, are incorporated, used, and included in these license royalty contracts under the term 'other patents pending. . . ' " (P. 9)

Patent 2,448,063 (Exhibit 23) (R. 61) was in fact invalidated in the case of **Thys Co.** v. **Oeste,** 114 F. Supp. 403 (N.D. Cal. 1953), **aff'd** 219 F. 2d 131 (9th Cir. 1955), **cert. den.** 349 U. S. 946, 75 S. Ct. 875, 99 L. Ed. 1272 (1955), **reh. den.** 350 U. S. 855, 76 S. Ct. 40, 100 L. Ed. 760 (1955). There is no evidence that either of the two remaining "pending" patents, namely, patent 2,559,060 (Exhibit 22) (R. 59) and patent 2,647,626 (Exhibit 25) (R. 62), was ever used in either of Petitioners' machines (R. 67-69).

dated patents was perpetuated by these contracts — and by similar form agreements covering over 200 additional portable hop-picking machines — long after the subject matter thereof had passed into the public domain.

The court below enforced the post-expiration and past invalidation royalty provisions for the full term of the contracts in suit. It affirmed the trial court judgment against Brulotte in the amount of $7,591.96 plus interest and against Charvet in the amount of $6,232.00 plus interest. In so doing it ignored the controlling precedent of this Court, and it rejected the decisions of the lower federal courts which have been guided by that precedent.

SUMMARY OF ARGUMENT

1.

The policy of the patent laws guarantees to the public the free right to use the subject matter of expired patents. *Sears Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 84 S Ct 784, 11 L Ed 2d 661 (1964); *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 84 S Ct 779, 11 L Ed 2d 669 (1964). That policy demands not only that each member of the public shall be *free* to use the invention of the expired patent but also that the consuming public at large shall receive the benefits of unrestricted use, by others, of its disclosures. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S Ct 101, 90 L Ed 47 (1945).

The post-expiration royalty provisions of the contracts in suit violate these principles by compromise of the paramount public right in the inventions of the expired monopolies. The contracts are therefore unenforceable because they constitute a misuse of the licensed patents. *American Securit Co. v. Shatterproof Glass Corp.*, 268 F 2d 769 (CCA 3, 1959); *Ar-Tik Systems, Inc., v. Dairy Queen, Inc.*, 302 F 2d 496 (CCA 3, 1962).

2.

Unenforceability of the contracts in suit for violation of the anti-trust laws follows *a fortiori* from the post-expiration royalty provisions which extend the monopolies of the

licensed patents to unpatented subject matter. *Mercoid Corporation v. Minneapolis Honeywell Regulator Co.*, 320 U.S. 680, 88 L Ed 396, 64 S Ct 278; *United States v. Loew's Inc.*, 371 U.S. 38, 83 S Ct 97, 9 L Ed 2d 11. The unpatented subject matter to which the statutory monopolies have been extended in this case includes the inventions of expired and invalidated patents. Since the public has invested in the unrestricted free right to use such inventions "by the grant of a monoply to the patentee for a *limited* time", *Scott Paper Co. v. Marcalus Mfg. Co., supra*, any compromise of that free public right by private contract is *per se* unreasonable and hence in violation of Sec. 1 of the Sherman Act.

ARGUMENT

The monopoly of the licensed patents has been extended beyond its statutory and constitutional scope by the post-expiration royalty contracts enforced by the court below. By these agreements the paramount right of the public to the *free* use of the subject matter of the expired patents has been compromised to enhance the private fortune of the patent owner.

The decision below violates the fundamental public policy of both the patent laws and the antitrust laws which, together, insure free competition in unpatented materials. This case demonstrates, in aggravated form, the evils consequent from abuse of the patent monopoly which this Court has condemned at least since the first misuse decision in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.2. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917).[11]

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[11] Indeed, this first misuse decision itself condemned contractual post-expiration extension of the patent monopoly. That case involved a notice attached to a patented motion picture projector. The notice provided that the patented projector might be used "only with moving picture films containing the invention of reissued patent No. 12,192 . . . " Noting that the reissue patent had expired, the opinion held:

> "Such a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired. . . . " **Motion Picture Patents Co. v. Universal Film Mfg. Co.**, 243 U. S. 502, 518, 37 S. Ct. 416, 61 L. Ed. 871, 879 (1917).

A. The Licensed Patents Have Been Misused

In *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964) this court again emphasized the rule that:

> "... when the patent expires the monopoly created by it expires, too, and the right to make the article — including the right to make it in precisely the shape it carried when patented—passes to the public. Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 120-122, 83 L ed 73, 79, 80, 59 S. Ct. 109 (1938); Singer Mfg. Co. v. June Mfg. Co., 163 US 169, 185, 41 L ed 118, 124, 16 S Ct 1002 (1896). [11 L. Ed. 2d 661, 666]

• • • • •

> "... An unpatentable article, like an article on which the patent has expired, is in the public domain and may be sold by whoever chooses to do so. What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. This it had every right to do under the federal patent laws. That Stiffel originated the pole lamp and made it popular is immaterial. 'Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all — and in the *free* exercise of which the consuming public is deeply interested.' Kellogg Co. v National Biscuit Co., supra, 305 US, at 112, 83 L ed at 80." [11 L. Ed. 2d 661, 667]

In *Sears* and in the companion case of *Compco Corp.* v. *Day-Brite Lighting*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964), the paramount public policy of the patent laws was held to preclude the extension of the monopoly of an expired or invalidated patent by the state law of unfair competition.

The decisions in *Sears* and *Compco* applied to the field of unfair competition the same principles defined almost twenty years before in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945). In

that case the same paramount public right to the free use of the subject matter of an expired patent was held to prevail over the private law of contract. In *Scott Paper Co.* the question was

> "... whether the assignor of a patent is estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art, expired patent." *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 250, 66 S. Ct. 101, 90 L. Ed. 47, 48.

Mr. Chief Justice Stone emphasized that any attempt by the patent owner to compromise the public interest in the subject matter of an expired patent was in conflict with the public policy of the patent laws. The opinion states:

> "... By the patent laws Congress has given to the inventor opportunity to secure the material rewards for his invention for a limited time, on condition that he make full disclosure for the benefit of the public of the manner of making and using the invention, and that upon the expiration of the patent the public be left *free* to use the invention. ... As has been many times pointed out, the means adopted by Congress of promoting the progress of science and the arts is the limited grant of the patent monopoly in return for the full disclosure of the patented invention and its dedication to the public on the expiration of the patent. ...
>
> "The aim of the patent laws is not only that members of the public shall be *free* to manufacture the product or employ the process disclosed by the expired patent, but *also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures.* Kellogg Co. v. National Biscuit Co., 305 US 111, 117-120, 83 L ed 73, 77-79, 59 S Ct 109.—*If a manufacturer or user could restrict himself, by express contract,* or by any action which would give rise to an 'estoppel,' *from using the invention of an expired patent, he would deprive himself and the consuming public of the advan-*

tage to be derived from his free use of the disclosures. The public has invested in such *free* use by the grant of a monopoly to the patentee for a limited time. *Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. . . .*

"By the force of the patent laws not only is the invention of a patent dedicated to the public upon its expiration, but the public thereby becomes entitled to share in the good will which the patentee has built up in the patented article or product through the enjoyment of his patent monopoly. Hence we have held that the patentee may not exclude the public from participating in that good will or secure, to any extent, a continuation of his monopoly by resorting to the trademark law and registering as a trademark any particular descriptive matter appearing in the specifications, drawings or claims of the expired patent, whether or not such matter describes essential elements of the invention or claims. Kellogg Co. v. National Biscuit Co. supra (305 US 117-120, 83 L ed 77-79, 59 S Ct 109); Singer Mfg. Co. v. June Mfg. Co., 163 US 169, 185, 41 L ed 118, 124, 16 S Ct. 1002.

"It is thus apparent that *the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly;* for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. *They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale or waiver. . . .*" (326 U. S. 249, 255-257, 66 S. Ct. 101, 90 L. Ed. 47, 51-52)

Since the decision in *Scott Paper*, every circuit court of appeals which has been presented, in the context of its misuse and antitrust consequences, with any contract serving to perpetuate the monopoly of an expired patent has found that contract illegal.[12] Earlier cases in the Second Circuit, sometimes cited as condoning post-expiration royalty agreements, were recognized to be dicta and rejected.

The development of the law is well summarized in the decision of the Third Circuit in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3d Cir. 1962) – a case admittedly in conflict with the decision below.[13]

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[12] The Third Circuit Court of Appeals in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3d Cir. 1962) and *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3d Cir. 1959), *cert. den.* 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959), *reh. den.* 361 U. S. 973, 80 S. Ct. 584, 4 L. Ed. 2d 553 (1960) found contracts containing provisions for post-expiration royalties to constitute an illegal extension of the monopoly. The Fifth Circuit in *Scapa Dryers, Inc.* v. *Abney Mills*, 269 F. 2d 6 (5th Cir. 1959) and the Sixth Circuit in *Prestole Corporation* v. *Tinnerman Products, Inc.*, 271 F. 2d 146 (6th Cir. 1959), *cert. den.* 361 U. S. 964, 80 S. Ct. 583, 4 L. Ed. 2d 545 (1960) similarly invalidated covenants not to use the subject matter of an expired patent. See also the decision of the Second Circuit in *Lucien Lelong, Inc.* v. *Lander Co.*, 164 F. 2d 395 (2d Cir. 1947) which held that a cologne bottle which was the subject of an expired design patent could not, *in toto*, be the subject of an enforceable common law trademark right regardless of alleged secondary meaning. *Zajicek* v. *Koolvent Metal Awning Corp. of America*, 283 F. 2d 127 (9th Cir. 1960), *cert. den.* 365 U. S. 859, 81 S. Ct. 827, 5 L. Ed. 2d 823 (1961), in enforcing a patent license agreement, did not consider the question of misuse or antitrust violation but relied only upon the intention of the parties as apparently expressed in a contract including a provision for post-expiration royalty payments.

The federal district courts have also recognized the force of *Scott Paper Co.* in invalidating such agreement. See *Technograph Printed Circuits, Ltd. et al.* v. *Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963), *aff'd per curiam* 327 F. 2d 497 (4th Cir. 1964) discussed *infra* p. 19. See also *Hisel* v. *Chrysler Corp.*, 94 F. Supp. 996 (W.D. Mo. 1951) which holds illegal and contrary to public policy an agreement not to disclose subject matter of an alleged trade secret already fully disclosed to the public in an expired patent.

[13] Footnote 3 of the opinion of the court below states in pertinent part:

> "We are aware of a recent contrary decision in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. (2d) 496 (C. A. 3d 1962). In that case the payment of royalties was required throughout the life of the machines sold. This was held to be a misuse of patents. We may assume that the agreement was enough like those involved in this case to make the rule applicable. We find the reasoning of the earlier cases more appealing, however, and we are not obliged to follow decisions of lower federal courts. *Lamb* v. *Railway Express Agency*, 51 Wn. (2d) 616, 320 P. (2d) 644. . . ." (R. 112)

In *Ar-Tik Systems, Inc.*, the Third Circuit said:

"The defendant justifies its termination of payments to Ar-Tik on the ground that the provision of the contract of October 18, 1949, requiring payments to Ar-Tik of royalties beyond the expiration date of the patent, is unenforceable because it constitutes a misuse of the patent.

"Early cases do not sustain that position. In E. R. Squibb & Sons v. Chemical Foundation, 93 F. 2d 475, 477 (2 Cir. 1937) it was said:

> " 'There is a presumption that royalties are not to be paid after the expiration of a patent; if the intention is to have them continue longer, the parties should phrase their contract in language from which such intention may fairly be inferred.'

The Court of Appeals for the Second Circuit cited as authority two earlier cases in that circuit: Sproull v. Pratt & Whitney Co., 108 F. 963 (2 Cir. 1901) and Pressed Steel Car Co. v. Union Pac. R. Co., 270 F. 518 (2 Cir. 1920). It should be noted, however, that in all three cases the suggestions that royalties could be made payable on expired patents were dicta because in each of the three cases it was found that the royalty contract did not provide for such payment. And in Sproull, the earliest of the Second Circuit cases, no authority is cited to support the dictum there stated.

* * * * *

"Apparently the first case which questioned the dictum in Squibb is Baker-Cammack Hoisery Mills v. Davis Co., 181 F. 2d 550 (4 Cir. 1950). There the court stated:

> " 'The Davis Company in the new offer also eliminated the provision as to the expiration date of the license. Theretofore in order to justify its requirement that a license taken by a manufacturer should

last until the expiration of the youngest patent in the group, it had relied upon the rule announced in such a case as E. R. Squibb & Sons v. Chemical Foundation, 2 Cir., 93 F. 2d 475, 477, that if the contract between the parties expressly so provides, royalty payments may be collected after the expiration of the patent. Such a provision, however, might easily lend itself to an unreasonable restraint of trade by extending patents beyond their legal limit; but it has been eliminated in the pending case and need no longer be considered.' 181 F. 2d at p. 573.

"The New York Court of Appeals has also questioned the dictum in Squibb in April Productions v. G. Schirmer, Inc., 308 N. Y. 366, 126 N. E. 2d 283, 69 A. L. R. 2d 1305 (1955). There the court held that where a licensee had copyrighted a composition in its own name in accordance with the custom in the music publication business and the contract provided for royalties to the licensor, who was the assignee of the composer, for each copy sold, the payment of royalties was not required after the expiration of the copyright. The court said:

> " 'Our reading of the contract in suit — as imposing no obligation to pay royalies after the expiration of the underlying copyrights — is reinforced by an established rule of construction applied in the analogous field of patent royalty agreements. See E. R. Squibb & Sons v. Chemical Foundation, 2 Cir., 93 F. 2d 475, 477; Tate v. Lewis, D. C., 127 F. Supp. 105; Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., D. C., 44 F. Supp. 396. . . . In point of fact, an agreement to pay royalties on the manufacture of a patented article "after the patent expires, whatever the legal device employed," may be unenforcible as contrary to public policy. Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 256, 66 S Ct. 101, 104, 90 L. Ed. 47, 51. . . .'

"Further doubt is cast on the vitality of the rule set forth in Squibb, in Warner-Lambert Pharm. Co. v.

John J. Reynolds, Inc., 178 F. Supp. 655 (S.D.N.Y. 1959). There a contract calling for the indefinite payment of royalties for the use of a secret drug formula was upheld. The formula, however, was unpatented. In discussing the instant issue the court said:

" 'Paralleling the concept that the licensing of a patent or copyright contracts only for the statutory monopoly granted in such cases is the concept not so frequently expressed that public policy may require a termination of the obligation to pay when the patent or copyright term is ended. * * *' 178 F. Supp. at p. 665.

"As authority for this statement the court cited Scott Paper Co. v. Marcalus Co., 326 U. S. 249, 66 S. Ct. 101 (1945)." *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496, 505, 507-508.

The Third Circuit then quoted extensively from the decision of this court in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) and continued:

"This court expressed its views on the present question in American Securit Co. v. Shatterproof Glass Corp., 3 Cir., 268 F. 2d 769 (1959). It held invalid a 'package' licensing agreement wherein the licensee was obliged to take a license on a group of patents even if only one was wanted, stating:

" 'We conclude also, and *quite apart from* all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue "in full force and effect to the expiration fo the last to expire of any" of Securit's patents set out in "Schedule A" constitutes a patent misuse *for it extends the payment of royalties of patents under patents which may expire to the expiration date of tha patent most recently granted to Securit*. * * *' (Emphasis supplied and footnotes omitted.) 268 F. 2d at p. 777.

"After the expiration of Patent No. 2080971 on May 18, 1954, the grant of patent monopoly was spent. An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable. Such action clearly appears to be interdicted by Scott Paper Co. v. Marcalus Co., supra, and American Securit Co. v. Shatterproof Glass Corp., supra.

"See Scapa Dryers, Inc. v. Abney Mills, 269 F. 2d 6 (5 Cir. 1959); Prestole Corp. v. Tinnerman Products, Inc., 271 F. 2d 146 (6 Cir. 1959)." (302 F. 2d 496, 509-510)

The relevant and controlling facts in the portion of *American Securit Co.* reaffirmed by *Ar-Tik Systems, Inc., supra*, and in the case at bar are substantially identical.

In this case, as in *American Securit Co.*, package licenses were before the court. In this case, as in *American Securit Co.*, the royalty rate was undiminished throughout the term of the package license contracts, notwithstanding the expiration of certain of the licensed patents. In this case, as in *American Securit Co.*, the payment of royalties on the unexpired patents continued long after the expiration date. In this case, as in *American Securit Co.*, the legal consequence is misuse of the licensed patents.[14]

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[14] The court below rejected the holding in **American Securit** as follows:

" . . . **The court** . . . (in American Securit Co.) **went on to say that a provision that the licensing agreement should continue in full force and effect until the expiration of the last of the patentee's licenses constituted a misuse of patent.** No authorities are cited in the opinion, and there is no discussion of the theory that the court used in arriving at this conclusion. It is, in any event, dictum. . . . " (R. 111)

But the holding in **American Securit Co.** was not "in any event dictum". As the court below apparently recognized (R. 110, 111), there were two separate misuse violations in **American Securit Co.** The first is mandatory package licensing. The second, which the court was careful to consider "quite apart from" the first was a requirement for post-expiration royalty payments. After enunciating the second violation (i.e., post-expiration royalty provisions), the Third Circuit **held:**

"We conclude for **these** reasons **also** that under the circumstances at bar the court below committed no error in ruling that Securit had misused its patents and that this misuse constituted a valid defense to the infringement suit." **American Securit Co. v. Shatterproof Glass Corp.**, 268 F. 2d 769, 777 (3d Cir. 1959), **cert. den.** 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959), **reh. den.** 361 U. S. 973, 90 S. Ct. 584, 4 L. Ed. 2d 553 (1960).

It was this second violation of the misuse doctrine by reason of post-expiration royalty provisions which was **reaffirmed** in **Ar-Tik Systems.**

To the same effect is the decision of the District Court for the District of Maryland in *Technograph Printed Circuits, Ltd., et al.* v. *Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963), *aff'd per curiam* 327 F. 2d 497 (4th Cir. 1964).[15]

In that case the court considered two different post-expiration royalty contracts. The first contained an express requirement that royalties be paid after the expiration date of one of the licensed patents. With respect to that contract, the court at page 48 said:

> "This express requirement that *royalty* [Emphasis by the court] be paid on a patent for five years after its expiration seems to be a clear violation of established principles that the monopoly of a patent cannot be continued, even by agreement, beyond its expiration date. Motion Picture Patents Co. v. Universal Film Mfg. Co., 1917, 243 U. S. 502, 516, 37 S. Ct. 416, 61 L. Ed. 871; Scott Paper Co. v. Marcalus Mfg. Co., Inc., 1945, 326 U. S. 249, 255-258, 66 S. Ct. 101, 90 L. Ed. 47, Prestole Corp. v. Tinnerman Products, Inc., 6 Cir., 1959, 271 F. 2d 146, 154, 155, cert. den. 1960, 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545; Tinnerman Products, Inc. v. George K. Garrett Co., D. C. E. D. Pa. 1960, 185 F. Supp. 151, aff'd. 3 Cir., 1961, 292 F. 2d 137, cert. den. 1961, 368 U. S. 833, 82 S. Ct. 58, 7 L. Ed. 2d 35."

The second agreement discussed by the court in *Technograph* contained a provision similar to that condemned in *American Securit Co.*

The Maryland Court at page 48 said:

> "The validity of such a provision was questioned by the Court of Appeals for the Fourth Circuit because it 'might easily lend itself to an unreasonable restraint of trade by extending patents beyond their

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[15] The affirmance was on the issue of patent invalidity. The Court of Appeals did not refer, in its per curiam opinion, to the trial court's statements with respect to misuse.

legal limit. * * * ' Baker-Cammack Hoisery Mills v. Davis Co., 4 Cir., 1950, 181 F. 2d 550, 573, cert. den. 1950, 340 U. S. 824, 71 S. Ct. 58, 95 L. Ed. 605). . . ."

The Maryland court then noted that:

> "Such a provision was specifically held to be invalid in American Securit Co. v. Shatterproof Glass Co. . . ." (218 F. Supp. 1, 48),

quoted the same passage from *American Securit Co.*, as that relied upon by the Third Circuit in *Ar-Tik Systems, Inc.*, and stated:

> "This court is in accord with the Third Circuit holding." (218 F. Supp. 1, 49)

In *Scapa Dryers, Inc.* v. *Abney Mills*, 269 F. 2d 6 (5th Cir. 1959) the Fifth Circuit followed *Scott Paper Co.* in recognizing misuse consequent from restrictions on the right of a licensee freely to use the subject matter of an expired patent.[16]

The same result was reached on analogous facts by the Sixth Circuit in *Prestole Corp.* v. *Tinnerman Products, Inc.*, 271 F. 2d 146 (6th Cir. 1959), *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 (1960).[17]

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16 In Scapa Dryers, Inc. v. Abney Mills, 269 F. 2d 6 (1959), on the authority of Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), the court said:

> "By the patents the Hindles had a monopoly on the looms. This monopoly is sought to be extended and perpetuated by Abney Mills, to the extent of the exclusion of Hindle and those claiming under it or using looms made by it. Such an extension of the patent monopoly is in conflict with the policy of the patent laws. . . ." (269 F. 2d 6, 13)

The court ultimately held that the contract in suit should not be construed to extend the patent monopolies after expiration.

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17 Prestole was followed in a suit involving the same contract in Tinnerman Products, Inc. v. George K. Garrett Co., 185 F. Supp. 151 (E. D. Pa. 1960), aff'd. 292 F. 2d 137 (3d Cir. 1961), cert. den. 368 U. S. 833, 82 S. Ct. 58, 7 L. Ed. 2d 35 (1961).

Both Prestole and Scapa Dryers were cited and followed by the Third Circuit in Ar-Tik Systems, Inc., supra.

In *Prestole* the court held each of a package of licensed patents misused because the license agreement purported to foreclose the licensee from practicing the invention of one of the patents which had expired.[18]

> "We have in mind that after the expiration of a patent, the invention originally protected thereby becomes, for all purposes, an unpatented device. The Courts have uniformly held that existing patents cannot, by conditions attached to license agreements, be used to create or extend a monopoly to unpatented articles.
>
> "In the case of Mercoid Corporation v. Mid-Continent Investment Co., 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376, an accused infringer interposed as defense to a charge of infringement that the plaintiff, 'should be barred from relief because it was seeking to extend the grant of the patent to unpatented devices' (320 U. S. at page 662, 64 S. Ct. at page 269).
>
> "While the facts of that case are not directly in point with the case at bar, the principles involved are sufficiently analogous that the Court's reasoning is opposite here. . . ." *Prestole Corp. v. Tinnerman Products, Inc.*, 271 F. 2d 146, 155-156 (6th Cir. 1959), *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 1960.

The Sixth Circuit then quoted extensively from the decision in *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944) and stated:

> "The following language of the District Judge in the case of United States v. Timken Roller Bearing Co., 83 F. Supp. 284, 313, was approved by the Supreme Court of the United States by its affirmance in Timken

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[18] Compare the ruling in **Motion Picture Patents Company** v. **Universal Film Manufacturing Company**, 243 U. S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917) (**supra**, note 11, page 10), which struck down the "notice" purporting to foreclose use of a patented moving picture projector with any motion picture film other than that embodying an invention of an **expired** patent.

Roller Bearing Co. v. United States, 341 U. S. 593, 71 S. Ct. 971, 95 L. Ed. 1199:

" 'The proposition of law has been firmly established that the patent does not empower its owner to restrain trade in processes or devices which are not embraced within the scope of his patent.'[19]

"We conclude, therefore, that Tinnerman's thus described misuse of the licensed patents forecloses it from specifically enforcing the license agreement." (271 F. 2d 146, 156)

The error of the decision below is strikingly demonstrated in its attempt to distinguish Prestole, as follows:

"The defendants also cite *Prestole Corp. v. Tinnerman Products, Inc.*, 271 F. (2d) 146, and *Tinnerman Products, Inc.* v. *George K. Garrett Co.*, 185 F. Supp. 151. These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period." (R. 111) (Emphasis by the court.)[20]

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[19] In so asserting, the District Court in **United States** v. **Timken Roller Bearing Co.**, 83 F. Supp. 284 (N. D. Ohio 1949) judgment modified without changing rationale 341 U. S. 593, 71 S. Ct. 971, 95 L. Ed. 1199, relied upon **United States** v. **Line Material Co.**, 333 U. S. 287, 68 S. Ct. 550, 92 L. Ed. 701 (1948); **Standard Sanitary Mfg. Co.** v. **United States**, 226 U. S. 20, 33 S. Ct. 9, 57 L. Ed. 107 (1912); and **United States** v. **United States Gypsum Co.**, 333 U. S. 364, 68 S. Ct. 525, 92 L. Ed. 746 (1948).

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[20] The tenuous distinction of **Prestole** in the opinion of the court below **ignores** its proper application in **Ar-Tik Systems, Inc.** v. **Dairy Queen, Inc.**, 302 F. 2d 496 (3d Cir. 1962) — the rationale of which was summarily rejected by the court below. See footnote 13, **supra**, page 14. In **Ar-Tik Systems**, the Third Circuit expressly held:

". . . An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable." (302 F. 2d 496, 510)

Prestole was among the authorities specifically cited for this proposition. **Prestole** was equally properly applied to **condemn** post-expiration royalty contracts as an **extension** of the patent monopoly in **Technograph Printed Circuits, Ltd. et al** v. **Bendix Aviation Corp.**, 218 F. Supp. 1 (D. Md. 1963), **aff'd per curiam** 327 F. 2d 497 (4th Cir. 1964).

But it is clear from *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) that the patentee may not "recapture any part of the former monopoly". So much of the decision below as purports to distinguish *Prestole* on the ground that a post-expiration royalty contract is not an extension of the patent monopoly is in obvious conflict not only with *Scott Paper Co.* but also with the various lower federal court decisions in which it has been followed including *American Securit Co., Ar-Tik Systems*, and *Technograph.*[21]

The propriety of these lower federal court decisions is amply demonstrated by *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed 2d 661 (1964) and *Compco Corp.* v. *Day-Brite Lighting*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964). In *Compco Corp.*, this Court stated:

> " . . . Today we have held in Sears, Roebuck & Co. v. Stiffel Co., supra, that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. 1, §8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing *free* access to copy whatever the federal patent and copyright laws leave in the public domain. . . . " (11 L. Ed. 2d at 672)

Sears and *Compco* reaffirm the mandate of *Scott Paper Co.* that the right of the public *freely* to use the subject matter of an expired or invalidated patent is *guaranteed* by the federal supremacy of the patent laws and shall not be compromised whether by private contract, by application of a state law of unfair competition, or by any other means.

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[21] The extension of the patent monopolies by the contracts in suit is strikingly apparent when the royalties are viewed as payments for immunity from infringement suits. Since no action lies for infringement of expired patents, post-expiration royalty contracts necessarily constitute an expansion of the statutory grant.

The post-expiration and post-invalidation royalty provisions of the licenses in suit obviously violate that guarantee. The legal consequence is misuse of the patents, unenforceability of the license agreements, and antitrust violation.

B. Antitrust Violation

Violation of the antitrust laws follows inexorably from the illegal extension of the licensed patent monopolies to unpatented materials by the post-expiration royalty contracts in suit. Indeed, under the doctrine enunicated by this Court, any extension of a patent monopoly is effectively a *per se* violation of §1 of the Sherman Act.

This rule was first announced in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680, 684, 64 S. Ct. 278, 88 L. Ed. 396, 399 (1944), as follows:

> " . . . The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws not by the patent law. For the reasons [22] stated in Mercoid v. Mid-Continent Invest. Co. supra, [320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944)] the effort here made to control competition in this unpatented device plainly violates the anti-trust laws, . . ."

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[22] The "reasons stated" in Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661, 666-667, 88 L. Ed. 376, 381-382 (1944) are, in the words of the Court:

> " . . . The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines. When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limiations upon that right which the general law imposes upon such contracts. The contract is not saved by anything in the patent laws because it relates to the invention. If it were, the mere act of the patentee could make the distinctive claim of the patent attach to something which does not possess the quality of invention. Then the patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts or other laws not the patent statutes define the public policy. (Footnote 2 con't. p. 25)

This same rule was in substance reaffirmed in *United States* v. *Loew's, Inc.*, 371 U. S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), as follows:

> " . . . These cases reflect a hostility to use of the statutorily granted patent monopoly to *extend the patentee's economic control to unpatented products.* The patentee is protected as to his invention, but *may not* use his patent rights to exact tribute for other articles.
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> "Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that *any tying arrangement involving the patented product would have anti-competitive consequences.* E. g., International Salt Co. v United States, 332 US 392, 90 L ed 20, 68 S Ct 12. . . "
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> " . . . There may be rare circumstances in which the doctrine we have enunciated under §1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable. However, we find it difficult to conceive of such a case, and the present case is clearly not one." (371 U. S. 38, 46, 49-50, 83 S. Ct. 97, 9 L. Ed. 2d 11, 19, 21,) [23]

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22 (con't.)

"The instant case is a graphic illustration of the evils of an expansion of the patent monopoly by private engagements. The patent in question embraces furnace assemblies which neither the patentee nor the licensee makes or vends. The struggle is not over a combination patent and the right to make or vend it. The contest is solely over unpatented wares which go into the patented product. . . . The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant. . . . "

23 To the same effect was the court's affirmation of its previous recognition

" . . . that '(t)ying agreements serve hardly any purpose beyond the suppression of competition,' Standard Oil Co. v. United States, 337 US 293, 305, 306, 93 L ed 1371, 1382 69 S Ct 1051. . . " (371 U.S. 38, 44, 83 S. Ct. 97, 9 L. Ed. 2d 11, 17-18)

Loew's, and various of the tying cases on which that decision relies, enunciated primarily the misuse and antitrust consequences of the methods adopted by the patent owner to *induce* the illegal tying contracts *ab initio*. In those cases illegal extension of the statutory monopoly was accomplished through use by the patent owner of the "economic power—presumed when the tying product is patented or copyrighted' 'as a lever "to induce his customers to take the tied product along with the tying item." In cases such as *Loew's* and *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948) where the *tied* product was another, unexpired patent or copyright, leverage or coercion by the monopoly owner was a prerequisite to the violation for without the coercion there would have been no extension of the monopoly. Thus, in *Loew's* the court reaffirmed "the flat holding in Paramount Pictures, 334 US, at 159, that 'a refusal to license one or more copyrights unless another copyright is accepted' is 'illegal'. " (371 U. S. 38, 50, 83 S. Ct. 97, 9 L. Ed. 2d 11, 21)

But, as this Court repeatedly has recognized

> " . . . The method by which the monopoly is sought to be extended is immaterial. United States v. Univis Lens Co. supra (316 US pp 251, 252, 86 L ed 1418, 1419, 62 S Ct 1088). . . . " *Mercoid* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 666, 64 S, Ct. 268, 88 L. Ed. 376, 381 (1943).

In *this case*, the patent monopoly has been extended by a method quite different from that specifically considered in *Loew's* — and one in which coercion by the patent owner forms no necessary element of the antitrust violation whatever. In this case, as in Prestole Corp. v. Tinnerman Products, Inc., 271 F. (2d) 146 (6th Cir. 1959) *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 (1960), the violation is legal consequence of the fact that the "tied" items include the inventions of *unpatented* expired and invalidated patents for which "the public has paid [for] by its grant of a monopoly" and which "have been appropriated to the use of all". The rights in such inventions are

"no longer subject to private barter, sale or waiver". A "manufacturer or user" may *not* "restrict himself by express contract . . . from using the invention of an expired patent" and thereby "deprive himself and the consuming public of the advantage to be derived from the free use of the disclosures". *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

It follows *a fortiori* that *any* contract which compromises that paramount public right by restricting competition in the invention of an expired or invalidated patent is, per se, unreasonable and hence unenforceable for violation of the antitrust laws. The question of coercion or the exercise of "leverage" by the patent owner is wholly immaterial to the illegality inherent in any such agreement.

Moreover, Respondent obviously has used its dominant economic position as the sole domestic manufacturer of portable hop-picking machines (R. 49),[24] together with the seven earlier patents under which Petitioners presumably *did* need a license up to their expiration or invalidation, to induce acceptance *not only* of a package license including five identified patents Petitioners did *not* need, *but also* of a royalty contract continuing after many of the licensed patents passed into the public domain. The record shows that some of these agreements will perpetuate Respondent's royalty income at an *undiminished* and unchanged rate until 1964 or 1965 (R. 41-53). A *substantial* portion of that continuing royalty perforce is allocable to the original "appeal" of the patents which expired or were invalidated long prior to the termination of the agreements.[25]

The necessary and demonstrated effect of the package licenses before the court is therefore to equalize — not to

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24 Respondent, through its business, is also the sole domestic supplier of various parts including "picking fingers" and catching "buckets" for the portable hop picking machines. (R. 49)

25 Compare the observation in **Loew's** that "(a) substantial portion of the licensing fees represented the cost of the inferior films which the stations were required to accept. . . . " (371 U. S. 38, 49, 83 S. Ct. 97, 9 L. Ed. 2d 11, 20)

differentiate—the reward for the individual patents. Each licensed patent "stands not on its own footing but in whole or in part on the appeal which another" patent may have. And the appeal of the package lies primarily in the unavailability to Petitioners of portable hop-picking machines and replacement parts under other terms. The result is to "add to the monopoly" of each individual patent and to enhance unreasonably the economic power of Respondent in violation of the public policy antitrust laws. Violation of §1 of the Sherman Act is inescapable. *United States* v. *Loews, Inc.*, 371 U. S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

C. There Is No Substantial Contrary Precedent

The court below held that:

> "The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. (2d) 475; *Starke* v. *Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882; *Tate* v. *Lewis*, 127 F. Supp. 105; *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906; and *Six Star Lubricants Co.* v. *Morehouse*, 101 *Colo*. 491, 74 P. (2d) 1239. In the later case, where an attempt was made to avoid the obligation to pay royalties because the contract called for their payment beyond the expiration date of the patent, the court said:
>
> > " 'There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents. 48 C. J. 277, §451; *Mitchell* v. *Hawley*, 16 Wall. (U. S.) 544, 21 L. Ed. 322;

Pressed Steel Car Co. v. *Union P. R. R. Co.*, 270 F. 518. . . . ' "[26]

The theory that post-expiration royalty contracts are legal was spawned by a series of three early decisions emanating from the Second Circuit. In addition to the decisions in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (2d Cir. 1937) and *Pressed Steel Car Co.* v. *Union Pac. R. Co.*, 270 Fed. 518 (2d Cir. 1920), cited in the opinion below, this series of cases includes *Sproull* v. *Pratt & Whitney Co.*, 108 Fed. 963 (2d Cir. 1901).

As the Third Circuit noted in *Ar-Tik Systems, Inc.*, 302 F. 2d 496, 505 (3d Cir. 1962):

> " . . . in all three cases the suggestions that royalties could be made payable on expired patents were dicta because in each of the three cases it was found that the royalty contract did not provide for such payment. And in Sproull, the earliest of the Second Circuit cases, no authority is cited to support the dictum there stated."

Moreover, it does not appear that in any of these Second Circuit cases the question of misuse or antitrust violation was raised. All were decided before *Scott Paper Co.*, *Ar-Tik Systems, Inc.*, *American Securit Co.*, *Prestole Corp.*, *Scapa Dryers, Inc.*, *Sears, Roebuck & Co.* and *Compco Corp.*

All of the *later* cases cited below — as the Third Circuit

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26 Other precedent sometimes relied upon in an effort to legitimatize post-expiration royalty contracts includes: **Automatic Radio Mfg. Co.** v. **Hazeltine Research**, 339 U. S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950); **Sproull** v. **Pratt & Whitney Co.**, 108 Fed. 963 (2d Cir. 1901); **Dwight & Lloyd Sintering Co.** v. **American Ore Reclamation Co.**, 44 F. Supp. 396 (S. D. N. Y. 1939); **Bettis Rubber Co.** v. **Kleaver**, 104 Cal. App. 2d 821, 233 P. 2d 82 (1951); **Eversharp, Inc.** v. **Fisher Pen Co.**, 204 F. Supp. 649 (N. D. Ill. 1961); **Well Surveys, Inc.** v. **McCullough Tool Co.**, 199 F. Supp. 374 (N. D. Okla. 1961); 2 **Walker, Patents** 456 (Deller's ed., Supp. 1961)

The decision below was followed by the Nebraska Supreme Court in **McLeod** v. **Crawford, et al.**, 126 N. W. 2d 663, 176 Neb. 513, 141 USPQ 45 (1964) which relied on the same precedent.

in *Ar-Tik Systems, Inc.* also noted — rely on one or more of these old Second Circuit decisions. In each of *Starke* v. *Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882 (E. D. Mich. 1959). *Tate* v. *Lewis*, 127 F. Supp. 105 (D. Mass. 1954); and *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906 (D. N. J. 1947) the statements with respect to the legitimacy of post-expiration royalty contracts are also dicta. As in *Squibb*, the courts in *Starke* and *Tate* both found that the contracts in suit did not in fact require post-expiration royalty payments, but, rather, that such contracts terminated with the expiration of the patents.[27] In *H-P-M Development Corp.* the court refererd to *Squibb* but noted that the issue was prematurely raised because "no evidence of the dates of the expiration" of the patents in issue had "as yet been produced" (71 F. Supp. 906, 913).

Six Star Lubricants Co. v. *Morehouse*, 101 Colo. 491, 74 P. 2d 1239 (1938), was decided by the Colorado Supreme Court in 1938 — prior to the decisions in *Scott Paper Co.*, *Ar-Tik Systems, Inc.*, *American Securit Co.*, *Prestole Corp.*, *Sears, Roebuck & Co.* and *Compco Corp.*, *supra*. No issue of patent misuse or antitrust violation was even raised. *Mitchell* v. *Hawley*, 16 Wall. 544, 21 L. Ed. 322 (1873) cited by the court in *Six Star Lubricants Co.*, is inapposite.[28]

The "rule which is set forth in Ellis, *Patent Licenses*, 3d ed., §109, p. 128" to which the court below adverted (R. 112), like similar "rules" which appear in 2 *Walker*, *Patents*, 456 (Deller's ed. Supp 1961) and 69 C. J. S. Patents

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27 The same is true of the decision in **Bettis Rubber Co. v. Kleaver**, 104 Cal. App. 2d 821, 233 P. 2d 82 (1951) and **Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co.**, 44 F. Supp. 396 (S. D. N. Y. 1939).

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28 In **Six Star Lubricants Co.** the court reversed a judgment for the plaintiff on the ground that it had failed to establish the use of the patented formulae or any patented formulae or any patented modification. The court went on, however, to express its views, which were quoted by the court below, on the contention made by the appellant that a contract provision requiring the payment of royalties on an expired patent was invalid. It instructed the trial court that under the facts of that case the question of whether the contract in suit required royalty payments on the expired patent was for the jury.

§262, p. 802, cite as authority either the early Second Circuit opinions or the court decisions noted heretofore.

Two district courts have failed to perceive the distinction between the prerequisites to violation of the antitrust laws by the mechanism of "block booking" in which "coercion" by the patent owner may be a necessary element and misuse and antitrust violation consequent from illegal post-expiration royalty contracts in which coercion by the patent owner is *not* an element.

In *Well Surveys* v. *McCullough Tool Co.*, 199 F. Supp. 374 (N. D. Okla. 1961), the court found as a fact that "the extension of the royalty base to cover practice of expired patents was not coerced . . . but was voluntary on the part of the licensees who were offered a real alternative by WSI's offer to grant a license under any individual patent or patents on negotiated terms". On the basis of this fact finding, the court concluded as a matter of law that the license agreement "which has in its royalty base the payment of a royalty on service performed on expired patents is not a misuse of the patent".

No authority was cited for the ruling. The court obviously ignored the mandate of *Scott Paper* which insures the free public right to use the subject matter of an expired patent.[29]

A similar error is reflected by the decision in *Eversharp, Inc.* v. *Fisher Pen Co.*, 204 F. Supp. 649, 675 (N. D. Ill. 1961) where the court held:

> "A license which, by its terms, continues until the expiration of all of the patents covered by such license, does not constitute a patent misuse, in the absence of a showing of coercion on the part of the patent owner that the licensee accede to such a provision. See E. R. Squibb & Sons. v. Chemical Foundation, 93 F. 2d 475, 477 (2 Cir., 1937); Sbicca-Del Mac v. Milius Shoe

[29] This case is now on appeal to the Court of Appeals for the Tenth Circuit. It is understood that that court has reserved decision pending disposition of this case.

Co., supra, 145 F. 2d 289, 401 (8 Cir., 1944),[30] Chicago Pneumatic Tool Co. v. Ziegler, 151 F. 2d 784, 796 (3 Cir., 1945),[31] and of American Securit Co. v. Shatterproof Glass Corp., 268 F. 2d 769, 775, 777 (3 Cir., 1959), cert. denied 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959)."

The decision in *Eversharp* conflicts in terms with the expressly contrary holding in *American Securit Co., supra.* The citation of the later case apparently as supporting the court's decision reflects its failure to appreciate that the opinion in *American Securit* involved two separate and independent misuse violations, namely, mandatory package licensing which was properly held to involve the element of coercion by the patent owner and post-expiration royalty obligations which were found to constitute a separate misuse "quite apart from" coercion and mandatory package licensing. The decision in *Eversharp* significantly fails to refer to the remainder of the precedent demonstrating illegality of post-expiration royalty contracts.

Automatic Radio Mfg. Co. v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950) did not endorse the legality of the patent monopoly extension by post-expiration royalty agreements. The license agreement in that case involved a group of 570 patents and 200 patent applications. *Automatic* contended that the license agreement could not be enforced because it was "a misuse of patents to require the licensee to pay royalties on its sales even though none of the patents are used."

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30 The **Sbicca** case, which was decided prior to this court's decision in **Scott Paper**, did not present the question of misuse or antitrust violation consequent from a post-expiration royalty provision in the contracts. The facts were that a package of 17 United States and Canadian patents were licensed at a fixed royalty rate per pair of shoes manufactured. The argument turned upon whether or not the pacage license was coercive and the court found that the licensor was willing to license "the contract patents or any of them". There was no question concerning the legality of post-expiration royalty contracts.

31 This case was concerned only with the interpretation to be placed upon certain terms in a patent licensing contract, the enforcement of which was before the court in a diversity case. No issue of misuse, antitrust violation or illegality was raised. While the contract before the court did include a provision which provided for post-expiration royalty payments as to some units of a patent package, it must be recognized that the case was decided prior to **American Securit Co. v. Shatterproof Glass Corp., supra**, and prior to the opinion of this court in **Scott Paper Co., supra.**

This Court expressly found that

> "... This royalty provision does not create another monopoly; it creates no restraint of competition beyond the legitimate grant of the patent....
>
> "... But as we have already indicated, there is in this royalty provision no inherent extension of the monopoly of the patent...." (339 U. S. 827, 833, 834, 70 S. Ct. 894, 94 L. Ed. 1312, 1318, 1319)[32]

While it is evident from the face of the opinion that the court would have held the agreement illegal, had its attention been directed to any "inherent extension of the monopoly of the patent" through post-expiration royalty provisions, *the fact is* that the court did *not* pass on that point. Nor can the opinion be bootstrapped into a precedent approving patent monopoly extension through post-expiration royalty payments by reference to the alleged record fact— to which the opinion does not advert — that some of the licensed patents expired or were invalidated during the license term.[33]

Manifestly, there is no "great weight of authority" and, indeed, no real authority at all for the proposition "that parties to a licensing agreement may contract for the pay-

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32 **H-P-M Development Corp.** v. **Watson-Stillman Co.**, 71 F. Supp. 906 (D. N.J. 1947) was not cited by this Court, as it was by the court below, in support of the proposition that post-expiration royalty contracts are valid. In **Automatic Radio Manufacturing Company** this Court cited **H-P-M** solely for the proposition that "since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege." Not a word was said about royalty payments for **expired** patents.

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33 The court in fact pointed out that petitioner had "nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continuing research." (339 U. S. at 834, 94 L. Ed. at 1319).

Nor did the dissenting opinion of Mr. Justice Douglas, with whom Mr. Justice Black, concurred, reflect any endorsement by the majority of post-expiration royalty provisions. The reference in the dissent is merely to the desirability of "exposing invalid or expired patents". No consideration is given in the dissent—as none was given in the majority—to the legality of post-expiration royalty contracts.

ment of royalties beyond the expiration of the patent. . . ." as the court below held.

The controlling precedent condemns such post-expiration royalty agreements as constituting both antitrust violations and patent misuse.

Nor are the license agreements in suit saved by any argument based on the private or state law of contract. The court below erred in its failure to recognize the patent and federal antitrust laws as dispositive of the case in favor of Petitioners. As this Court said in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661, 665:

> " . . . Pursuant to this constitutional authority [Art. I, §8, cl. 8], Congress in 1790 enacted the first federal patent and copyright law, 1 Stat 109, and ever since that time has fixed the conditions upon which patents and copyrights shall be granted, see 17 USC §§1-215, 35 USC §§1-293. These laws, like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. See Sperry v. Florida, 373 US 379, 10 L ed 2d 428, 83 S. Ct. 1322 (1963). When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. Sola Elec. Co. v. Jefferson Elec. Co., 317 US 173, 176, 87 L ed 165, 168, 63 S Ct 172 (1942). This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power."

There is no legal justification for the decision below. This case is controlled by the applicable federal law under which the contracts in suit are illegal and unenforceable.

CONCLUSION

Petitioners respectfully request this Court to reverse the judgment below on the ground that the contracts in suit constitute a misuse of the licensed patents and a violation of the antitrust laws.

Respectfully submitted,

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APPENDIX A

Article I, Sec. 8, cl. 8

The Congress shall have Power . . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

* * * * * *

Sec. 154. *Contents and term of patent*

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. July 19, 1952, c. 950, Sec. 1, 66 Stat. 804.

* * * * * *

§1. *Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty*

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competion with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for

such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647 § 1, 26 Stat. 209; Aug. 17, 1937, c. 690, Title VIII, 50 Stat. 693; July 7, 1955, c. 281, 69 Stat. 282.

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§ 2. *Monopolizing trade a misdemeanor; penalty*

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, § 2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282.

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CITATIONS

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Cases—Continued

In the Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE ET AL., PETITIONERS

v.

THYS COMPANY

ON WRIT OF CERTIORARI TO THE SUPREME COURT OF WASHINGTON

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

OPINIONS BELOW

The opinion of the Supreme Court of the State of Washington (R. 106–114) is reported at 162 Washington 2d 284, 382 P. 2d 271. The memorandum opinion of the Supreme Court in and for Yakima County (R. 82–89) and its findings of fact and conclusions of law (R. 92–100) are unreported.

JURISDICTION

The judgment of the Supreme Court of the State of Washington (Department One) was entered on October 4, 1963 (R. 115). A petition for rehearing *en banc* was denied on October 4, 1963 (R. 116). The petition for a writ of certiorari was filed on December 26, 1963, and was granted on February 17, 1964 (R. 116; 376 U.S. 905).

The jurisdiction of this Court is conferred by 28 U.S.C. 1257(3).

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED

Article I, Section 8 of the Constitution of the United States provides:

> The Congress shall have Power * * * [Clause 8] [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

The pertinent provisions of the United States Patent Code, Title 35 U.S.C., are as follows:

> Section 101. Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.
>
> Section 154. Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. * * *

QUESTION PRESENTED

The United States will discuss the following question, which, it submits, is comprehended by the two questions as to which the Court granted certiorari:[1]

[1] Those two questions are (R. 116–117):

1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the in-

Whether, in a patent licensing agreement, a patentee may require the payment of royalties for the use, after his patents have expired, of a machine which incorporates mechanisms covered by such patents.

INTEREST OF THE UNITED STATES

The issue in this case is whether a patentee may require the payment of royalties for use of a patented machine after the patents upon the mechanisms in the machine have expired. The patent laws give a patentee the exclusive right to exploit his invention for 17 years; after that period has passed, however, the patent passes into the public domain, where the invention may be practiced by all without charge. The United States is concerned that permitting a patentee to collect royalties for use of a patent after it has expired would constitute an unwarranted extension of the limited monopoly which the patent laws permit, and, therefore, would be detrimental to our basic federal policy of free competition.

STATEMENT

The Thys Company ("Thys") held numerous patents relating to hop picking machines. It arranged for the manufacture of portable machines embodying certain of those patents and then sold the machines to farmers. Under the sales agreement the purchas-

vention after the patent has expired and the invention had been dedicated to the public.

2. Whether it is a misuse or an antitrust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties.

ers paid Thys a flat sum and received title to the machine, but could use it only pursuant to a license set forth in the purchase agreement. (R. 42, 43, 74, 78, 107, 109.) The license listed certain patents covering the mechanisms in the machine, and also stated "Other Patents Pending" (R. 71, 79). It provided for royalty payments of $3.33⅓ per two hundred pounds of dried hop harvested by the machine, with a minimum royalty of $500 per machine for each hop-picking season. Payments were to be made for seventeen years from the date of purchase. The agreement also provided that without Thys' permission, the purchaser could not sell his machine or permit it to be moved to another county, or assign his interest in the licensing agreement (R. 71, 79).

The Brulottes and the Charvets (the petitioners here) purchased their Thys machines from prior purchasers on August 10, 1948, and January 31, 1951, respectively (R. 71, 79, 94). They signed form sales agreements furnished by Thys which were substantially the same as the original Thys sales agreement (R. 54, 55). Under the agreements the owners of the machines sold them to the Brulottes and the Charvets, and Thys licensed use of the machines until the expiration of the seventeen-year period provided for in the original sales agreements (R. 71, 79). Thus the Brulottes were obligated to pay royalties until the end of the 1958 harvest season and the Charvets until the end of the 1960 season.

The form agreements listed 12 patents relating to hop picking machines, but only seven of them covered

mechanisms incorporated into the machines purchased by the Brulottes and Charvets (R. 95).[2] All but one of the listed patents expired in 1955 or 1957 (R. 71, 79). The patent whose term was as long as the license agreements (U.S. Patent Number 2,336,280) covers a mechanism not incorporated in the machine (R. 56). The license agreements also referred to "Other Patents Pending" (R. 71, 79). One patent application was pending when the Brulottes and the Charvets entered into the agreements with Thys; the patent which later issued on this application does not expire until 1969. A second patent application was pending when the Charvets purchased their machine and a third was pending at the time that the Brulottes purchased their machine. The patent issuing on this third application was later declared invalid (R. 95).

Neither the Brulottes nor the Charvets made payments after 1952 (R. 94). Thys brought suit in a Washington State Court against the Brulottes in 1959, and against the Charvets in 1960 to recover royalties allegedly due under the license agreements. Among the defenses which petitioners raised was the claim that Thys had misused its patents by attempting to extend the royalty payments beyond the expiration date of the listed patents which covered improvements incorporated in the machines (R. 110). The trial court

[2] Two of the patents listed were subsequently held invalid: No. 2,114,712 in *E. Clemens Horst Co.* v. *Oeste*, 114 F. Supp. 408 (N.D. Cal.), and No. 2,226,009 in *Thys Co.* v. *Oeste*, 111 F. Supp. 665 (N.D. Cal.), affirmed, 219 F. 2d 131 (C.A. 9), certiorari denied, 349 U.S. 946.

rejected this as well as all other defenses, and rendered judgment in favor of Thys (R. 86–89). The Supreme Court of the State of Washington affirmed, holding on this issue that since the parties "understood between them that a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent * * * [t]here is no legal or equitable reason why they should not be required to perform their agreement" (R. 112).

SUMMARY OF ARGUMENT

The patent laws give a patentee for 17 years the exclusive right to exploit his invention. The limited duration of the patent grant is an essential element of the patent system, and "on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property" (*Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169, 185). The Court repeatedly has condemned attempts to continue the patent monopoly, in any form or degree, after the patent has expired.

The licensing agreement in this case requires the payment of royalties based upon use of the patented machine after the patents which it utilizes have expired. Such an agreement constitutes a forbidden attempt by a patentee to extend its patent monopoly beyond the limited term for which it is granted. For once the patent has expired, the invention which it covers is in the public domain; and the patentee

cannot thereafter charge the public royalties for the right to practice the invention.

Contrary to the view of the Supreme Court of Washington, payment of royalties for use of the machine after the patent has expired cannot be justified as a convenient method of spreading over a reasonable time the payments for use of the patent. For the amount of the payments depends upon how much the machine is used, and when the licensee pays royalties after the patent has expired, he is being required to pay for the right to practice an invention that has passed into the public domain.

ARGUMENT

A PATENTEE MAY NOT REQUIRE, IN A PATENT LICENSING AGREEMENT, THE PAYMENT OF ROYALTIES FOR THE USE, AFTER HIS PATENTS HAVE EXPIRED, OF A MACHINE WHICH INCORPORATES MECHANISMS COVERED BY SUCH PATENTS

1. The Patent and Copyright Clause of the Constitution authorizes Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" (Art. I, § 8, cl. 8). By its terms, the clause allows the grant of exclusiveness only for original creative contributions, and only "for limited Times." In the patent laws, Congress has defined these limitations upon "the exclusive Right" to exploit inventions: A

patent may be granted for a "new and useful" product for 17 years, during which period no one may make, use or sell the patented product in the United States without the authority of the patentee (35 U.S.C. 101, 154, 271).

"Since patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute" (*United States* v. *Masonite Corporation,* 316 U.S. 265, 280). The limited duration of the grant is an essential element of the patent system. The inventor is given the exclusive right to practice his invention for 17 years, but "on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property," which all may enjoy without charge. *Singer Mfg. Co.* v. *June Mfg. Co.,* 163 U.S. 169, 185; *Kellogg Co.* v. *National Biscuit Co.,* 305 U.S. 111, 117–120. To insure that the public ultimately will have the right fully to practice the invention, the patent laws further require "full disclosure for the benefit of the public of the manner of making and using the invention" (*Scott Paper Co.* v. *Marcalus Co.,* 326 U.S. 249, 255).

This Court has repeatedly condemned attempts to continue the patent monopoly, in any form or degree, after the patent has expired. Thus, upon expira-

tion of the patent the patentee cannot protect the good will that has attached to the distinctive shape of the patented product during the life of the patent; to permit it to prevent others from producing the product in that shape would enable it to extend benefits of the patent monopoly beyond the period provided by Congress. *Kellogg Co.* v. *National Biscuit Co., supra.* Where, during the time the patents were in force, the name of the manufacturer acquired a generic meaning covering a particular type of product, the manufacturer was not permitted, after the patents had expired, to enjoin others from using that name. *Singer Mfg. Co.* v. *June Mfg. Co., supra.* For when a patent expires, the patented product falls "into the domain of things public"; and the public acquires the right to make the goods and to do whatever is necessary for their "full enjoyment," including the right to "use the name in every form" even if it was originally the surname of the patentee. Otherwise, the patentee could in effect "disregard the public dedication and practically perpetuate indefinitely an exclusive right." *Id.*, at 185–186.

In *Scott Paper Co.* v. *Marcalus Co.*, 326 U.S. 249, the Court held that an assignor of a patent might defend a patent infringement suit on the ground that the assigned patent claimed an invention covered by a prior expired patent and was therefore invalid. The Court ruled that to permit an estoppel—even as against the assignor who had received full compensa-

tion from the plaintiff—would be improper, for it would result in hampering the free use of the invention after the patent had expired. It stated (326 U.S. at 256–257):

> * * * the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale or waiver.

2. The licensing agreements in the present cases require the payment of royalties based upon use of the patented machine after all the patents which the machine utilizes have expired. Under the agreements the Brulottes were required to pay royalties through the 1958 harvesting season, and the Charvets through the 1960 season (R. 71, 79). Although the form licenses listed twelve patents relating to hop picking systems which the machines utilized, only seven of them covered mechanisms actually incorporated into the machines which the Brulottes and the Charvets acquired (R. 95). All of these seven patents expired in 1955 or 1957 (R. 71, 79). Another patent (U.S. Patent No. 2,336,280, R. 56), which expired in December, 1960, covered an invention not incorporated in

the machine: a hop cluster stemmer, which is a mechanical device to salvage hops from clusters which become separated from vines. (R. 56. This patent is reprinted in Appendix A.) The license to use this hop cluster stemmer was of no direct use to the purchasers of the hop-picking machine, since it was not a part of the machine, and there is no indication that any part of the royalties represented compensation for this patent. As the trial court stated (R. 87); "If any patents were included which were not needed in the use of the machines, they were mere surplusage and there is no evidence from which the court might conclude that any special value was placed upon any of the patents which were not incorporated in the machines." It is thus plain that the royalties which the petitioners were obligated to pay were for the use of the seven patents that expired in 1955 or 1957.

3. The question in this case, therefore, is whether, consistent with the limited scope of the patent monopoly, a patentee may require in a patent licensing agreement the payment of royalties based on the use of the patented device after the patent has expired. We submit that he may not. For once the patent has expired, the invention which it covers is in the public domain; and to allow the patentee to obtain payments for its continued use would be to perpetuate the patent monopoly beyond the limited time prescribed by Congress. Stated differently, the effect would be to enable the patentee to continue to enjoy the benefits of his monopoly after it had expired.

To be sure, had the machine been unpatented the parties, if permitted by State law, could have entered

into an agreement for its sale on precisely the same terms. But the fact that the machine was patented constitutes a critical difference and compels a contrary result. Since the owner of a patent is granted by federal law the exclusive right to exploit his invention for a limited time, he is in a far stronger bargaining position during that period vis-à-vis prospective users of the patent than the owner of an unpatented product. For while the patent is in force those who wish to use it have no alternative but to deal with the patentee, and, if the product is in demand, he is able to impose severe terms and conditions, as to which there is unlikely to be any realistic bargaining. But this exclusivity feature also has its price: once the period of exclusivity is over, the patentee cannot in any way continue to reap the benefits of his monopoly.

When Thys licensed the petitioners to use the machines, it was the only source to which petitioners could turn if they wanted a portable hop-picking machine.[3] It was the existence of this monopoly power, resting upon the patents, that enabled Thys to require its licensees, as a condition of obtaining the machines, to agree to pay royalties for the use of the machines not only during the life of the patents, but even beyond. The situation thus is analogous to the numerous cases in which this Court has struck down attempts by a patentee to tie the sale or use of patented products to the purchase or use

[3] Indeed, the record shows (R. 49) that since 1941 Thys was the only source of portable hop-picking machines in the United States.

of unpatented ones;[4] both situations involve a forbidden attempt by a patentee to extend the patent monopoly beyond the limited scope which Congress has given it. It is therefore not surprising that, although the cases are in disagreement,[5] there is persuasive authority condemning, as a patent misuse, the attempted "exaction of royalties" for use of a machine after the patent utilized therein has expired. *Ar-tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496, 510 (C.A. 3); *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769, 777 (C.A. 3), certiorari denied, 361 U.S. 902; *Technograph Printed Circuits, Ltd.* v. *Bendix Aviation Corp.*, 218 F. Supp. 1, 48–49 (D. Md.), affirmed on other grounds, 327 F. 2d 497 (C.A. 4), pending on petition for certiorari, No. 176, this Term; cf. *Baker-Cammack Hosiery Mills* v. *Davis Co.*, 181 F. 2d 550, 573 (C.A. 4), certiorari denied, 340 U.S. 824.[6]

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[4] *E.g.*, *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436; *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495; *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661.

[5] The contrary authorities are cited by the Supreme Court of Washington, R. 111. In general, they do not focus on the point, developed in the text, that the exaction of post-expiration royalties constitutes a misuse of patents, and treat the problem as one of general contract law.

[6] The respondent cannot justify its imposition of royalties after the patents used in the machine had expired by the facts that (1) the form sales-and-license agreement also covered "Other Patents Pending" (R. 71, 79), of which there were three when the petitioners purchased their machines (R. 95); and (2) these "patents pending" issued during the life of the patents used in the machines and were still in effect upon the expiration of the 17-year period for royalties. For, as the trial

To this it may be answered, as did the Supreme Court of Washington (R. 111, 112), that the sale and royalty agreements in this case involved no improper extension of the patent monopoly, but only an understanding "that a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent." If that were all the parties had done, we agree that the respondent would not have gone beyond the proper scope of its patent rights. For example, if the parties had agreed (1) that a fair price for the machine was $8,500, and (2) that such amount should be paid over a 17-year period at the annual rate of $500, there would be no problem.

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court ruled (R. 82), "the record is inconclusive as to whether or not they were in fact used or incorporated into the machines." If the subsequently issued patents were not used in the machines, they could not possibly sanction the imposition of royalties for use of the machines after the patents which it incorporated had expired. But even if they were incorporated in the machines, this would not aid respondent. For the applications for the patents were all filed more than one year after Thys initially had sold the machines to the farmers who resold them to petitioners (R. 57, 60, 62) (As Appendix B we attach copies of the title pages of the relevant patents), and 35 U.S.C. 102(b) provides that a patent may not be granted if the invention claimed has been used or sold in the United States more than one year prior to the date of the application. Finally, since a mere application for a patent gives the applicant no patent rights enforceable against third persons, a patentee cannot rely on a "patent pending" to define or expand his rights under his existing patents. Nordhaus and Jurow, *Patent-Antitrust Law*, § 38; *United States* v. *National Lead Co.*, 63 F. Supp. 513, 523–524 (S.D.N.Y.), affirmed, 332 U.S. 319; cf. *Tate* v. *Lewis*, 127 F. Supp. 105 (D. Mass.); *Ethyl Gasoline Corp* v. *United States*, 309 U.S. 436.

In fact, however, the agreements under which the machines were sold were not limited to a sale at a fixed price, the payment of which was spread over a designated period. On the contrary, the sales price comprised two elements: (1) a relatively small amount determined and paid in advance; and (2) a flexible balance to be paid over 17 years, the amount of which depended upon the use that would actually be made of the machine, with a minimum annual payment—expressly described as a "royalty" (R. 71, 79)—of $500.[7] By thus being required to pay Thys royalties based on their use of the patented machine after the patents had expired, the petitioners were being required to pay for the right to practice an invention that had passed into the public domain. As we have shown, however, the patent laws require that, upon the expiration of the term of the patent, the invention must be dedicated to the public.

Automatic Radio Manufacturing Co., Inc. v. *Hazeltine Research, Inc.*, 339 U.S. 827, upon which respondent relies (Br. in Opp., 10–12), does not establish the validity of such payments. That case involved the legality of a license covering all of the licensor's patents, in return for royalty payments of

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[7] If royalty payments on a particular machine exceeded $500, the excess was not credited toward the minimum payment due on any other machine (R. 74, 78). The Charvets did not use the machine at all after 1952; they were, however, required to pay the minimum royalties for those years (R. 97). The Brulottes were required to pay royalties for use in excess of the minimum for four years (R. 101).

a percentage of the licensee's sales, with a minimum amount. The royalties were payable without regard to the number of the patents which the licensee used; indeed, they accrued even if none was used. This Court held (p. 834) that "in licensing the use of patents to one engaged in a related enterprise, it is not *per se* a misuse of patents to measure the consideration by a percentage of the licensee's sales." The lower courts had both treated the licensing agreement as "a convenient mode of operation designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents" (p. 833), and the rationale of this Court's decision was its ruling (p. 834) that "[s]ound business judgment could indicate" that "payment of royalties according to an agreed percentage of the licensee's sales * * * represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement." In the present case, however, as we have shown, the requirement that the petitioners pay royalties for the use of the machine after the patents had expired was not merely a "convenient method of fixing the business value of the privileges granted by the licensing agreement"; on the contrary, it was an attempt to secure for the respondent the benefits of its patent monopoly after the patents had expired.

4. The obligation in the licensing agreements to pay royalties after the patents have expired is coupled with other limitations which together have serious

anticompetitive consequences. The agreements prohibit the purchasers of the machine from reselling them without the respondent's consent.[8] As the present case demonstrates, the respondent apparently requires, as a condition to consenting, that the subsequent purchasers assume the obligation to pay royalties for the balance of the 17-year period. This restriction inevitably makes it more difficult for the initial purchasers of the machines to dispose of them, with the consequent blocking of the development of a market for second-hand machines. Thus, when the patents have expired and the used machines otherwise would be readily tradeable, respondent's restrictive patent-licensing conditions protect it from the competition of used machines.

Moreover, other manufacturers who attempted to manufacture and sell the machine after respondent's patents had expired would be under a serious handicap because of the obligation which respondent had imposed on its customers to pay a minimum annual royalty of $500, whether or not they use the machine. For even though the new machine was better than respondent's, the minimum royalty requirement would (1) make it difficult for the new manufacturer to sell its product to the group that would be most familiar

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[8] Such a restraint on alienation, even of a patented product, is unlawful. *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U.S. 373, 404; *Adams* v. *Burke*, 17 Wall. 455; *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490; *United States* v. *Univis*, 316 U.S. 241.

with the product, and (2) discourage that group from substituting a superior product.

5. It therefore follows that the trial court erred in rejecting the petitioners' affirmative defense of patent misuse based upon the imposition of royalties for use of the machines after the patents had expired. Apparently no question has been raised whether respondent's patent misuse bars it from collecting any royalties for use of the machines, or only royalties accruing after the patents expired.

CONCLUSION

For the foregoing reasons the judgment of the Supreme Court of Washington should be reversed.

Respectfully submitted.

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Solicitor General.
WILLIAM H. ORRICK, JR.,
Assistant Attorney General,
ROBERT B. HUMMEL,
GERALD KADISH,
Attorneys.

SEPTEMBER, 1964.

APPENDIX A

Dec. 7, 1943. G. E. MILLER 2,336,280

HOP CLUSTER STEMMER

Filed Sept. 18, 1942 2 Sheets-Sheet 1

Fig. 1.

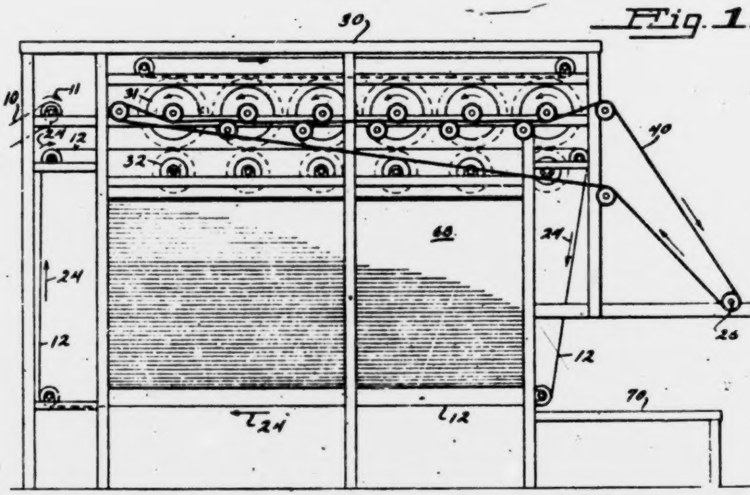
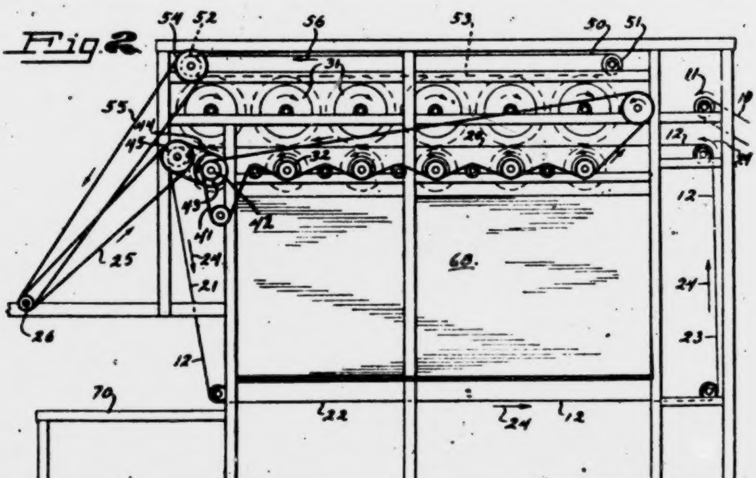


Fig. 2



INVENTOR.
GEORGE E. MILLER.
BY
Chas. E. Townsend
ATTORNEY.

Dec. 7, 1943. G. E. MILLER 2,336,280

HOP CLUSTER STEMMER

Filed Sept. 18, 1942 2 Sheets-Sheet 2

Fig. 3.

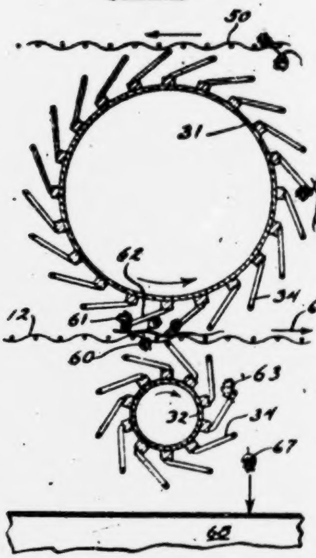


Fig. 4.

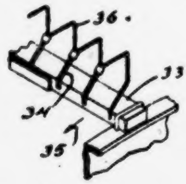
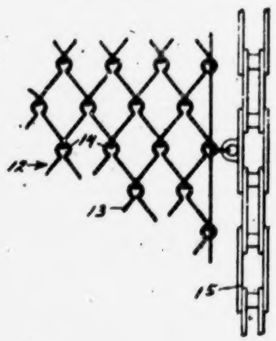


Fig. 5.



INVENTOR,
GEORGE E. MILLER.
BY
Chas. E. Townsend
ATTORNEY

Patented Dec. 7, 1943 2,336,280

UNITED STATES PATENT OFFICE

2,336,280

Hop Cluster Stemmer

George E. Miller, Fair Oaks, Calif., assignor to E. Clemens Horst Company, San Francisco, Calif., a corporation of New Jersey

Application September 18, 1942, Serial No. 458,793

4 Claims. (Cl. 130—30)

This invention relates to hop picking machines.

Hops grow on vines which are trained vertically on strings attached to horizontal wires suspended about eighteen feet above the ground. At harvest time the vines are pulled down and hauled to a plant where they are run through a machine which picks the hops from the vines. The picked hops are then separated from the leaves, etc.

From the time the vine is pulled down in the hop field to the time it is fed into the picking machine, it receives considerable handling in the course of which clusters become detached from the vine. A cluster comprises an arm or branch of the vine bearing a cluster of hops. Heretofore the only satisfactory way to salvage the hops on these clusters was to pick them off by hand--an expensive, laborious task.

The object of this invention is to provide a machine for doing this work.

A machine in which the invention is embodied is disclosed in the drawings in which:

Fig. 1 is a schematic side elevation of the machine.

Fig. 2 is an elevation of the opposite side of the machine.

Fig. 3 is a vertical section through a pair of finger drums.

Fig. 4 is a fragmentary perspective of a finger bar.

Fig. 5 is a fragmentary plan of a screen.

The clusters are collected and deposited on a conveyor 10 (Fig. 1) which discharges them as indicated by the arrow 11 on an endless feed belt or conveyor 12 which is constructed as shown in Fig. 5.

The central part of the conveyor on which the clusters are deposited is made of diamond mesh screen 13 hinged as indicated at 14, Fig. 5. The screen 13 is supported and carried by a pair of chains, one of which is shown at 15.

Referring to Fig. 2, the screen conveyor 12 has a horizontal upper stretch 20, a downwardly and inwardly inclined stretch 21, a horizontal lower stretch 22, and a vertical stretch 23. The conveyor is moved in the direction of the arrows 24 by a drive chain 25 which transmits power from a suitable power shaft 26.

Suitably journalled in the frame 30 are a series of upper finger drums 31 and a series of lower finger drums 32. Each drum has a plurality of transverse finger bars 33 (Fig. 4), of conventional construction. The fingers 34 are made of wire and are bent rearwardly with respect to their direction of movement indicated by the arrow 35. Adjacent fingers converge in a V, as shown at 36, in the same manner as the fingers of the human hand. In fact, when the hops are manually picked they are snared between the fingers with a raking motion of the hand. Hence the term finger.

Means are provided for rotating the finger drums. The upper drums 31 (Fig. 1) are rotated in the direction of the arrows thereon by means of a sprocket chain 40 driven from power shaft 26. The lower

drums 32 are rotated in the direction of the arrows thereon (Fig. 2) by a sprocket chain 41 which engages a drive sprocket 42 which is driven in unison with a sprocket 43 by a chain 44 from a sprocket 45 which is driven by the chain 25 from the power shaft 26. The drums 31 and 32 are arranged in pairs, the axes of each pair lying in a vertical plane perpendicular to the horizontal stretch 20 of the screen conveyer 12. The upper and lower drums rotate in opposite directions and in the direction of feed of the conveyer 12.

An endless screen belt 50 (Fig. 2) having the same construction as the conveyer 12 passes around sprockets 51, 52, and has a horizontal stretch 53 above the upper drums 31. The belt 50 is driven by means of sprocket 54 and chain 55 from power shaft 26 in the direction of the arrow 56 so that the stretch 53 adjacent the drums moves in the same direction as the fingers thereon.

It is an important feature of the invention that the screens move in the same direction as the fingers adjacent thereto, and further, that the peripheral speed of the drums, or the linear speed of the fingers, exceeds the linear speed of the screens as will now be explained by reference to Fig. 3.

The clusters which may be lying in any position on the screen conveyer 12 become entangled therein as will be apparent. The cluster readily engages with the screen on account of the fact that it is in a wilted condition so that some of the hops such as shown at 60 tend to droop down through the apertures of the screen 12.

The screen 12 feeds the clusters in the direction of the arrow 61 between a pair of drums 31, 32 which are rotating in the direction of the arrow thereon. The parts are arranged as shown so that the fingers

34 pass close to the screen. The hops are picked from the cluster by the fingers. A hop, such as 61, is snared by the finger 62 in the upper drum and, because the finger is moving faster than the screen and the cluster is caught in the screen, is snapped off by the finger. A hop, such as shown at 60, which hangs down from the screen will be snared by one of the fingers in the lower drum and snapped off. A hop picked by the lower drum is shown at 63.

In the event a cluster, such as shown at 65, is pulled off the screen 12 it is thrown or carried up against the upper screen 50 where the fingers cooperate with the upper screen to perform the picking operation. Thus, it will be seen that the lower screen 12 acts as a feeding and positioning means and the upper screen performs a similar function and in addition prevents the clusters from being thrown out of the machine by the rapid rotation of the upper drums 31.

Hops picked by the upper finger drum fall down through the apertures in the screen and hops picked by the lower drum also fall downwardly therefrom. A picked hop is shown at 67. It falls down against a baffle 68. The baffle 68 (Figs. 1 and 2) extends the length of the machine and underlies the finger drums. The baffle is inclined. In Fig. 1 the under side of the baffle appears which in Fig. 2 is seen the surface of the baffle on which the hops fall. They roll down the baffle appears while in Fig. 2 is seen the surface of shown) which removes them from the machine. The baffle and conveyer for collecting the picked hops may be of a construction and arrangement conventional in hop-picking machines. The arms and remaining parts of the clusters are discharged from the conveyor 12 by falling out of the conveyor in the inwardly inclined stretch 21, the material collecting on a table 70.

What I claim is:

1. A hop cluster stemmer which comprises, in combination, a horizontally disposed traveling screen for supporting and for conveying the clusters, said screen provided with diamond mesh openings, a series of picker drums disposed immediately above and adjacent to the screen, a second series of picker drums disposed immediately below and adjacent to the screen, each drum of both series carrying V-shaped picker fingers, means to revolve the drums so that the fingers sweep over the upper and lower surfaces of the screens substantially tangential thereto and in the same direction of travel of the screen, and means to rotate the drums so that the fingers travel at greater speed than the screen.

2. A hop cluster stemmer which comprises, in combination, a horizontally disposed traveling screen for supporting and for conveying the clusters, said screen provided with diamond mesh openings, a series of picker drums disposed immediately above and adjacent to the screen, a second series of picker drums disposed immediately below and adjacent to the screen, each drum of both series carrying V-shaped picker fingers, means to revolve the drums so that the fingers sweep over the upper and lower surfaces of the screens substantially tangential thereto and in the same direction of travel of the screen, means to rotate the drums so that the fingers travel at greater speed than the screen, a second mesh screen disposed immediately above and tangential to the arcs of travel of the outer ends of the fingers in the upper series of drums, and means to drive said second screen with its under stretch adjacent to the picker drums in the same direction as the adjacent fingers but at a slower rate of speed than said fingers.

3. A hop cluster stemmer comprising, in combination, two horizontally disposed, parallel spaced screen

conveyers with diamond mesh openings, means to cause the lower plane of the uppermost conveyer to travel in a direction opposite to the upper plane of the lowermost conveyer and each traveling at the same speed, a series of horizontally disposed picker drums arranged between the lower plane of the upper conveyer and the upper plane of the lower conveyer, said drums having picker fingers arranged approximately tangential to the adjacent surfaces of both screens, and means to revolve the drums so that the fingers travel in the same direction as, but at greater speed than, the adjacent plane of the lower screen.

4. A hop cluster stemmer comprising, in combination, two horizontally disposed, parallel spaced screen conveyers with diamond mesh openings, means to cause the lower plane of the uppermost conveyer to travel in a direction opposite to the upper plane of the lowermost conveyer and each traveling at the same speed, a series of horizontally disposed picker drums arranged between the lower plane of the upper conveyer and the upper plane of the lower conveyer said drums having picker fingers arranged to move in arcs approximately tangential to the adjacent surfaces of both screens, means to revolve the drums so that the fingers travel in the same direction as, but at greater speed than, the adjacent plane of the lower screen, a second series of picker drums arranged below and adjacent to the upper plane of the lowermost screen, and means to revolve that series of drums in the ame direction as said screen plane and at a peripheral speed in excess of the rate of travel of the screen.

George E. Miller.

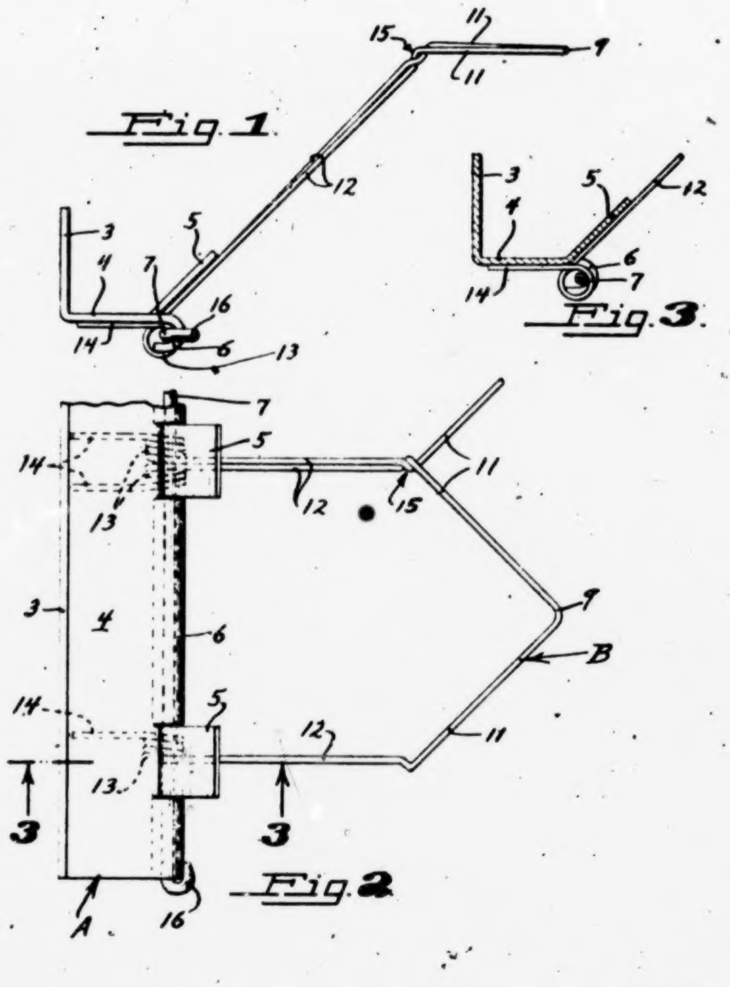
APPENDIX B

EXHIBIT 22

June 3, 1952 E. THYS 2,599,080

HOP PICKING MECHANISM

Filed Oct. 24, 1947



INVENTOR,
EDOUARD THYS.

BY Stephen Townsend
ATTORNEY.

EXHIBIT 23

Aug. 31, 1948. E. THYS 2,448,063

MACHINE FOR STRIPPING HOPS FROM VINES

Filed Aug. 28, 1944

Fig. 1.

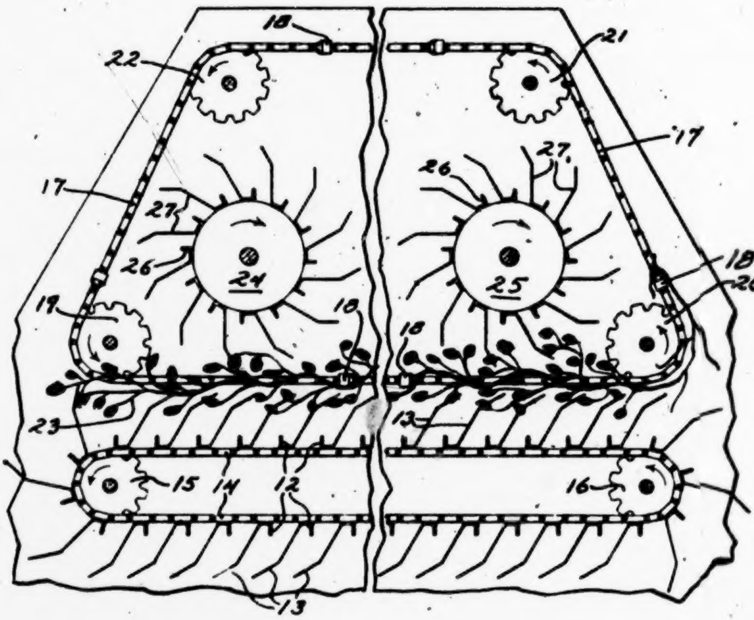


Fig. 2.

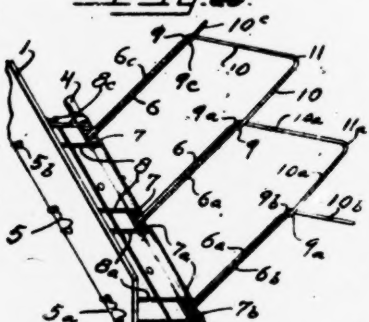
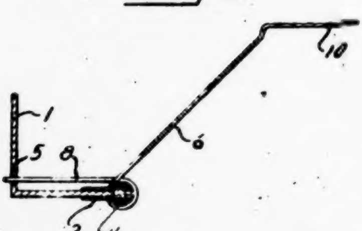


Fig. 3



INVENTOR,
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BY Chas. E. Townsend

ATTORNEY.

EXHIBIT 25

Aug. 4, 1953 E. THYS 2,647,626

HOP STEM SEPARATOR

Filed Jan. 26, 1951 2 Sheets-Sheet 1

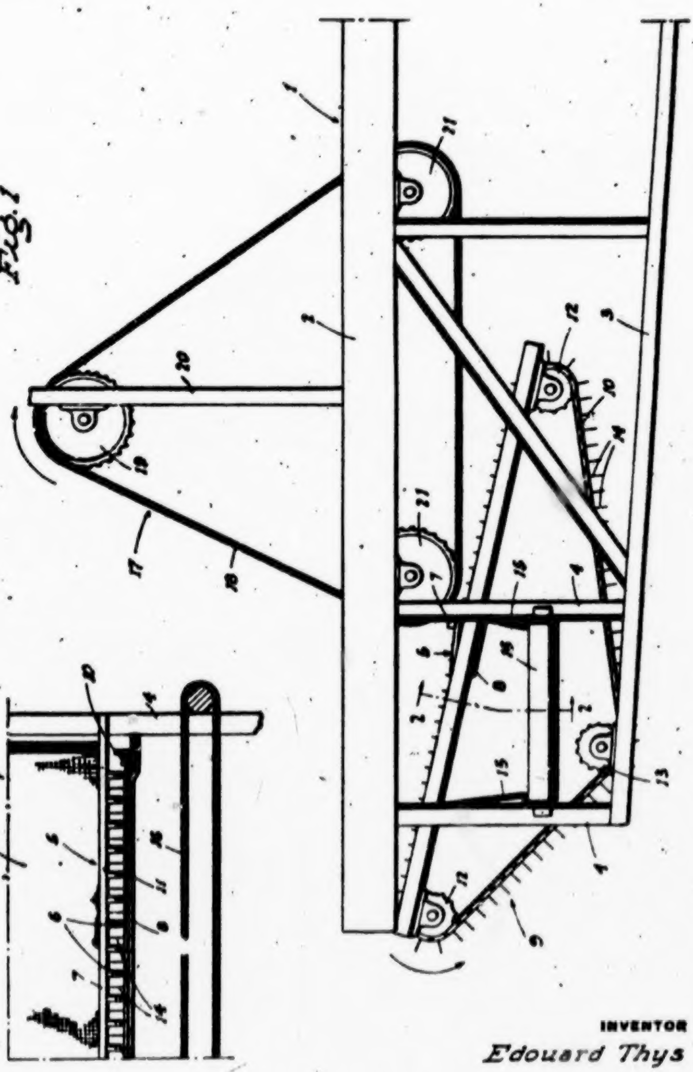

Fig. 1

Fig. 2

INVENTOR
Edouard Thys

BY [signature]
ATTORNEYS

U S GOVERNMENT PRINTING OFFICE 1954

In the Supreme Court of the United States

OCTOBER TERM, 1964.

No. 20.

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife,
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY,
Respondent.

MOTION OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) FOR LEAVE TO FILE BRIEF AS AMICUS CURIAE.

RUFUS S. DAY, JR.,
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Cleveland, Ohio 44113,

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THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—PHONE: 621-5647

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Respondent.

MOTION OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) FOR LEAVE TO FILE BRIEF AS AMICUS CURIAE.

To the Honorable, The Chief Justice of the United States and the Associate Justices of the Supreme Court of the United States:

Now comes Well Surveys, Inc.,* and respectfully moves this Court, pursuant to Rule 42, paragraph 3, of the Rules of this Court, for leave to file the accompanying brief in this case as an *amicus curiae*. The consent of the attorney for petitioners was requested but refused. The interest of Well Surveys, Inc., and its reasons for asking for leave to file a brief as *amicus curiae* are set forth below.

Movant, Well Surveys, Inc., is appellee in the case of *McCullough Tool Company, et al. v. Well Surveys, Inc., et*

*All assets and liabilities of Well Surveys, Inc. have recently been transferred to its parent, Dresser Industries, Inc. For simplicity, the interest of Well Surveys, Inc. and/or Dresser Industries, Inc. will be referred to collectively as Well Surveys, Inc.

al. (Case Nos. 6952-6956), now pending in the Tenth Circuit Court of Appeals, which was argued before that court on January 10, 1964. Such case involves a claim by Well Surveys, Inc. that McCullough has infringed its patents, and a defense, rejected by the District Court, that Well Surveys, Inc. has been guilty of patent misuse. One of the asserted grounds of misuse is that Well Surveys, Inc. has included in the royalty base of certain patent licenses granted by it operations covered by an expired patent.

On July 10, 1964, the parties were advised by the Tenth Circuit Court of Appeals that decision would be "deferred pending decision of the Supreme Court of the United States in the case of *Brulotte, et al. v. Thys Company, et al.*, 376 U. S. Reports, Page 905"—that is, the instant case.

In the instant case, this Court had, a short time previously, granted a writ of certiorari limited to two questions. The first, framed as follows, is representative:

> "1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public."

The above question is so broadly stated that a categorical affirmative answer might be understood to control the decision in our Tenth Circuit case. In actuality, however, the operative facts of the two cases are very different, and each requires separate, though related, consideration.

In the instant *Brulotte* case, the Thys Company granted *only* package licenses with a broad royalty base including operations covered by expired patents. It apparently granted about 200 of these, in identical form, and never

granted or offered any other type of license. If the characterization in petitioners' brief is correct (we have not yet seen respondent's brief) this was a "mandatory package license."

In our Tenth Circuit case, on the other hand, movant offered its licensees and potential licensees an alternative to a package license. Each of them had an opportunity to negotiate a license under an individual patent or patents on reasonable terms, and many of such licenses were in fact negotiated. The District Court specifically found (Finding 122, Court of Appeals Record, Page 98):

> "While the royalty base employed in the standard license agreements made by WSI after June 1, 1956 included or purported to include operations covered by the expired Bender patent, the extension of the royalty base to cover practice of expired patents was not coerced, after June 1, 1956, but was voluntary upon the part of the licensees, who were offered a real alternative by WSI's offer to grant a license under any individual patent or patents upon negotiated terms."

Judge Savage held that the alternative offer of negotiated licenses under an individual patent or patents, and the voluntary nature of the acceptance of the broad royalty base by those licensees who accepted it, distinguished our case before him from cases in which the broad royalty base, including expired patents, was mandatory. A reading of his oral opinion (Court of Appeals Record, page 647) indicates that he believed this holding was required by the decision of this Court in *Automatic v. Hazeltine*, 339 U. S. 827 (1950).

As above stated, the Tenth Circuit Court of Appeals has deferred its decision of McCullough's appeal from the decision of Judge Savage pending decision by this Court of the instant *Brulotte* case.

In this situation, the reasons of Well Surveys, Inc., for asking leave to file a brief as *amicus curiae* in the instant case may be summarized as follows:

1. A categorical affirmative answer to the question as to which certiorari has been granted might be deemed to control, not only cases where the acceptance of a royalty base including operations covered by expired patents was coerced, but also a case like ours where the patentee offered a real alternative, and acceptance by licensees of the broad royalty base (in cases where they accepted it) was voluntary.

2. It is our view that, whether or not it is a misuse to coerce acceptance of a royalty base including operations covered by expired patents, the doctrine of misuse does not preclude parties, after a real alternative has been offered, from voluntarily agreeing, as a matter of convenience in accounting for royalties due, to use a broad royalty base which includes operations covered by expired patents. We believe that substantial authority, including decisions of this Court, supports this view, and that nothing in any decided case conflicts with it.

3. We, of course, have not yet seen respondent's brief in the instant case. However, if statements made in petitioners' brief are correct, the instant case is one in which acceptance of a royalty base including expired patents was mandatory. If this is true, neither petitioners nor respondent may have any interest in presenting to this Court the point of view outlined in 2 above. Specifically, petitioners argue that any inclusion in a royalty base of operations covered by expired patents, whether coerced or voluntary, is a misuse; and it may be the position of the respondent—as it was, apparently, the view of the Supreme Court of Washington—that inclusion of expired

patents in the royalty base, even where mandatory, is not a misuse provided the parties intended such inclusion. In this situation, the appended brief may be the only one addressed to what we believe is the controlling question in the case.

4. Respondent may argue only that inclusion of expired patents in the royalty base in the instant case was, as a matter of fact voluntary, and that, as such, it was legal. Such an argument would be along the same general lines as our view. However, even if respondent takes such position, we believe it would be helpful to this Court in arriving at a proper answer to the questions as to which certiorari was granted, to have before it an *amicus* brief, which is not limited by the precise factual situation in the case at bar, but is free to direct the attention of the Court to related fact situations, and to discuss the implications of possible holdings more broadly than respondent is likely to do.

It is such a brief, appended to this motion, which movant desires leave to file.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

BRIEF OF RESPONDENT

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BRIEF OF RESPONDENT

STATEMENT

This is *not* a patent infringement suit nor a government antitrust suit, as petitioners would seem to believe. These are two consolidated state court actions at law to recover money judgments for agreed unpaid balances owing on written patent license-royalty contracts, which were voluntarily entered into by the parties, for the use and/or the right to use certain portable hop picking machines and certain existing and future patent rights.

The Brulotte contract was executed on August 10, 1948, when he purchased a used portable hop picking machine from Yakima Chief Ranches, Inc., which was then changing over to the newer, larger, and keenly competitive sta-

tionary hop picking machines. It expired at the completion of the 1958 harvest season. (Ex. 1; R. 28, 70-73)

The Charvet contract was executed on January 31, 1951, when he likewise purchased a used machine from one Oliver Champoux. It expired at the completion of the 1960 harvest season. (Ex. 3; R. 33, 78-81) Both petitioners voluntarily paid the agreed royalties several years, and then refused to do so.

Admittedly during several years each of the petitioners hired certain owners of competitive stationary machines to pick either all or a substantial portion of their hops. (R. 30, 32, 35, 36) Respondent has never had nor sought any monopoly of hop picking machines, nor engaged in any suppression of competition, and there is no evidence that it has done so.

In fact, as indicated by the foregoing facts, the competition of stationary machines (which remain in the farm building, to which the cut hop vines are hauled by truck) has been so terrific that it has not been feasible for respondent or anyone else to manufacture or sell a single new portable machine (which is towed through the hop field) since 1947. (R. 39-42, 53-56, 70)

Mr. Edward Thys, an inventor and the president of respondent Thys Company, spent a tremendous amount of time and work in extensive research, development and expirimentation on this problem commencing in 1935. As a result from time to time respondent became the owner and holder of 19 patents on hop picking machines and improvements thereof. (Ex. 1-26; R 36-39, 48, 56, 64, 65, 70)

It is a well known fact, of which the courts can take judicial notice, that farmers require a tremendous amount of agricultural financing, and in fact many millions of dollars are needed for that purpose annually from various government loan agencies. Consequently it was financially impracticable for the hop farmers to pay cash in full when the machines were purchased. Therefore this plan was

adopted — pursuant to legal principles which were then at least well recognized — that the purchaser paid at or before delivery of the machine the charge of Lindeman Power Equipment Company of Yakima, Washington, for the manufacture of the machine; and the payment of the patent royalties or additional compensation of respondent for the right to use these patent rights was spread out over a uniform period of 17 years from the date of original delivery of the machine. This (1) was a mutually convenient payment method and was extremely desirable and beneficial to the hop farmers as a credit financing arrangement, because it gave them additional time in which to make full payment of the agreed royalties out of their savings and economies in labor costs in the use of the machines, as contrasted with the former more expensive hand picking method — especially during World War II when hand pickers were not available —; and also (2) it avoided unfair discrimination as between the machine purchasers in different years by providing a uniform payment period for all, irrespective of the date of purchase. This substantially reduced the amount which otherwise would have been payable annually by the machine purchasers. No interest was charged prior to the annual royalty maturity dates. (R. 42, 43, 56, 64-66)

Originally the agreed royalty was $5.00 per bale for a 17-year period, with a $500.00 annual minimum. However, subsequently after the machines met with a certain amount of commercial success respondent decided to voluntarily make certain concessions to the machine purchasers. This could have been done by reducing the royalty payment period to less than 17 years. However, the other alternative was adopted of reducing the amount of annual royalty payment from $5.00 to $3.33-⅓ per bale (200 pounds of dried hops; $3.00 if paid by October 15th) with a minimum annual royalty of $500.00 plus 4 per cent state sales tax, for the same uniform period of 17 years from date of delivery. This was preferable and beneficial to the hop farmers because it gave them a longer period of time in which to make the payments, with a smaller re-

duced amount payable each year. (R. 42, 43, 50, 65, 66)

At various times a considerable number of machine purchasers have urgently requested extensions of time so as to postpone further the due dates of the agreed royalties until after the expiration of the original agreed royalty period. In all such cases, where justified by the circumstances, these farmers' requests for such extensions have been agreed to by respondent. (R. 53, 66)

Admittedly there has never been any attempted or actual interference by respondent or anyone else with the continued use of the machines by petitioners or other purchasers nor any attempt to exclude them from the continued use of the machines or the patented inventions. (R. 67)

When these contracts were entered into, respondent held 12 hop picking machine patents, all of which, as shown on page 6 of petitioners' brief, were plainly listed on the face of the contract by patent number, *"date of issue"*, and nature of the invention. Petitioners and the other machine purchasers presumptively knew that each patent legally expired 17 years after such respective dates of issue. Five of the listed patents were issued in 1940 and expired in 1957. The last listed patent, No. 2,336,280 on "hop cluster stemmer" was issued on December 7, 1943, and *did not expire until December 7, 1960.* This, of course, *was subsequent* to the expiration of the royalty period under both of these contracts. (Ex. 1, 3, 16; R. 56, 57, 70-81)

The contracts also licensed "Other Patents Pending". Respondent had three other patent applications pending when these contracts were executed, on which patents were subsequently issued. These were Ex. 22, No. 2,559,-080 issued on June 3, 1952; Ex. 23, No. 2,448,063 issued on August 31, 1948; and Ex. 24, No. 2,620,064 issued on December 2, 1952. In addition thereto four other patents on hop picking machines and accessories and improve-

ments thereto were subsequently applied for and issued to respondent. These included, among others, Ex. 25, No. 2,647,626 issued on August 4, 1953 and Ex. 26, No. 2,764,-163 issued on September 25, 1956. Of course, *none of these subsequently issued patents has yet expired,* and all of them still remain in full force and effect. At least 7 of respondent's 12 original listed patents were actually incorporated in petitioners' machines. All of these subsequently issued patents were incorporated in petitioners' and other-similar machines or were readily available and suitable for that purpose as accessories and improvements thereof. (Ex. 22-26; R. 47-52, 56-64, 68, 69)

Respondent listed and licensed in the contracts all of its patents then issued and thereafter to be issued so that, in addition to those actually incorporated in the machines, (1) the same would be available for subsequent additions, accessories and improvements to the machines, such as, for example, supplementary hop cleaning equipment, and also (2) so as to avoid any possible danger of future claims of patent infringement on the part of anyone — and no such claim has ever been made. (R. 64)

It is undisputed that petitioners never sought or requested a license as to part but not all of the Thys patents listed in the contracts. Thys never insisted that a license be accepted as to all or none of the patents. Thys never refused to grant a license under any one or more of the patents to anyone who refused to take a license under all of them. Thys was merely licensing the right to use all of his existing and future patent rights, as well as a particular machine, and without additional charge included all of the patents he had, irrespective of whether or not they were actually used or incorporated in the machine at that particular time. No additional royalty charge whatever was made by reason of the inclusion thereof in the contracts. (R. 46, 64)

The trial court found *"the plaintiff was not guilty of any misuse of its patent rights"*. (R. 96, par. 7) As stated in

footnote 8 on page 7 of petitioners' brief *"The findings of fact are to be accepted as correct"*. It was also so stated in the State Supreme Court opinion. (R. 108)

The issues herein arise solely from the affirmative defenses pleaded by the defendants petitioners as subsequent afterthought trial amendments to their answers. (R. 21-26) Both the trial court and the State Supreme Court by unanimous departmental opinion correctly held that petitioners had failed to sustain their burden of proof as to these affirmative defenses, and that respondent was therefore entitled to recover judgment against them. (R. 82-116)

However, for each year subsequent to 1956 respondent in each case recovered only the agreed annual minimum royalty of $500.00 plus tax. (R. 97-104).

SUMMARY OF ARGUMENT

1.

The undisputed facts do not bring this case within the alleged legal principle contended for by the petitioners, even if that were to be the law, which we deny. *These royalty contracts covered numerous patents which did not expire until subsequent to the expiration of the royalty contracts.* Having accepted the benefits of a reduced royalty for a 17-year period, as distinguished from the same royalty for a shorter period, the machine purchasers are now precluded and estopped from denying liability for the royalties for the agreed 17-year royalty period. Petitioners are in effect seeking unwarranted judicial legislation of an *ex post facto* nature, because all of the cases relied upon by them were decided long after these contracts were entered into, and principally after the contracts expired, whereas at the time the contracts were executed the legal authorities were unanimous that such contracts are valid.

Consequently the legal question argued by petitioners should not be reached, and on these facts the writ should be dismissed as improvidently granted or the judgments should be affirmed.

2.

Respondent has not made any misuse of patents, and petitioners have wholly failed to sustain their burden of proof as to these affirmative defenses. This royalty arrangement was entirely lawful and proper. *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U. S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950).

The great weight of authority and the better reasoning support our position that, as held by the lower courts, a royalty contract executed while the patents are in effect is legally valid, although the time for payment of a portion of the royalties is extended until after the expiration of the patents. This is not against public policy, and consequently freedom of contract in this respect, which does not violate any state law, should be permitted and encouraged.

3.

The patent misuse dictrine is a specific application of the "*unclean hands*" principle and is therefore applicable only in *equity actions*. The same does not constitute a defense to a law action of this nature merely to recover a money judgment on a written royalty contract.

4.

There is here no violation by respondent of the antitrust laws. There is no monopoly or attempted monopoly of hop picking machines nor any suppression of competition nor unreasonable restraint of trade. Certiorari was denied as to question 3 in the petition. The "tie-in" cases have no application under the undisputed facts and are clearly distinguishable.

5.

The cases cited by petitioners (with a single possible exception of *Ar-Tik*) are not suits of this nature to recover

patent royalties, but are patent infringement injunction suits or government antitrust suits. The same are therefore clearly distinguishable and not applicable to this case.

6.

Respondent never enjoined, prevented, nor interfered with the actual use of any invention covered by an expired patent, nor attempted to do so. Consequently there was no violation of public policy as indicated in *Scott* and other similar cases. Public policy therefore requires freedom of contract concerning a mutually convenient financing arrangement extending the time of payment of the agreed royalties.

ARGUMENT

A. Because of the Special Facts of this case the Writ should be dismissed or the judgments affirmed.

Petitioners' position is completely without foundation both on the facts and the law. We first respectfully submit that because of the special undisputed facts hereinabove summarized this Court should not even reach for decision the legal uestion argued by petitioners. The writ of certiorari should therefore be dismissed as improvidently granted, or in any event for that reason the judgment should be affirmed. The facts here do not bring the case within the alleged legal principle contended for by petitioners, even if that were to be the law, as we contend it should not.

The last of the 12 patents specifically listed in this license-royalty contract, namely No. 2,336,280 on "hop cluster stemmer" was issued on December 7, 1943, and therefore of course did not expire until December 7, 1960. (Ex. 1, 3; R. 70-81) Obviously this was subsequent to the expiration of both of these royalty contracts.

Also the contracts licensed "Other Patents Pending". At that time respondent had three patent applications

pending, on which patents were subsequently issued. Moreover respondent subsequently applied for and obtained the issuance of four additional patents on hop picking machines, accessories and improvements. All of these patented inventions *were either incorporated and embodied in petitioners' machines or were readily available and suitable for that purpose. None of these seven patents has yet expired.*

Furthermore, the original agreed royalty was $5.00 per bale. In making a subsequent concession to the macine purchasers respondent could either have (1) shortened the royalty period or (2) reduced the amount of the royalty payable annually. It chose the latter alternative, because this was more beneficial to the machine users, as it gave them a longer time in which to complete the royalty payments and it reduced the amount payable annually to $3.33-1/3 per bale, with a $500.00 annual minimum royalty, plus state sales tax. This was a practicable and mutually convenient credit financing arrangement as to the royalties, which facilitated agricultural financing and was directly advantageous to the hop farmers. Certainly petitioners and the other machine purchasers, after having accepted the benefits of this arrangement long prior to the expiration of these patents, are now precluded and estopped from denying liability thereunder.

This mutually convenient payment method was definitely advantageous and beneficial to the hop farmers because by extending and spreading out the payment period to 17 years it had the effect of reducing the amount which otherwise they would have had to pay each year. Otherwise for many hop farmers the expense would have been prohibitive unless spread out over as lengthy a period as 17 years. This enabled them to pay the royalties out of savings and economies in machine operation as contrasted to the former hand picking method. As a matter of fact because of their financial incapacity numerous machine purchasers urgently requested extensions of time for payment of the royalties after the expiration of the 17 year

period, which requests were customarily granted by respondent. None of them ever made the slightest objection to this payment arrangement until after the 17 years had expired and they had defaulted in their agreed payments. Also the uniform period of 17 years for such payments was necessary in order to prevent unfair and inequitable discrimination against those who helped pioneer the project by purchasing such machines during the earlier years.

This was a licensing arrangement with petitioners as to one single definite known portable hop picking machine together with the rights to use thereon any of respondent's existing and subsequent patented inventions as to accessories, additions and improvements thereto. Petitioners knew what they wanted, and that they certainly received. Admittedly there has been no subsequent interference whatever by respondent or anyone olse with their continued use of the machines. Obviously in this situation involving such a machine it would not have been practicable to reduce the royalty as some of the component patents expired.

As hereinabove stated, for each year subsequent to 1956 — and the principal patents had not yet then expired — respondent recovered from each petitioner nothing whatever in excess of the *agreed annual minimum royalty* of $500.00 plus tax. This minimum royalty had no relationship whatever to whether or not there was any *actual use* of the patented inventions during those years nor the extent thereof.

Respondent entered into these contracts with petitioners and others in reliance upon the legal authorities which then, at least, uniformly held that such contracts are valid. All of the cases relied upon by petitioners were decided long afterwards. In fact most of those cases were decided subsequent to the expiration of these contracts.

We respectfully submit that what petitioners are actually seeking here would be unwarranted judicial legislation of

an *ex post facto* nature, holding for the first time by an authoritative Court as to the Pacific Coast States, that such contracts would not be enforceable. California and Washington, where these contracts were made and to be performed, in line with the authorities generally, have held the law to be in accord with our contentions.

Certainly a reversal of these judgments under these facts would be a gross miscarriage of justice. No contention is or can be made that these royalties are unfair, excessive or unreasonable. No fraud, duress, or mistake is claimed. The contracts were voluntarily entered into by both parties. Under these circumstances respondent should not now be punished by being denied access to the courts for having been a good Samaritan in its dealings with these hop farmers, needing assistance in financing the deferred payment of their just contractual obligations.

In the very recent case of *Simpson v. Union Oil Co.*, U.S. 12 L. Ed. 2d 98, 107, 84 S. Ct. 1051, (April, 1964) Justice Douglas, speaking for this Court said:

> "We reserve the question whether, *when all of the facts are known, there may be any equities that would warrant only prospective application* in damage suits of the rule governing price fixing by the 'consignment' device which we announce today". (All emphasis is supplied, unless otherwise noted.)

Certainly under the facts of the instant case *there are such equities here that would warrant only prospective application.*

In *Fisher Manufacturing Co. v. M. Witmark & Sons*, 318 U.S. 643, 659, 87 L. Ed. 1055, 1065, 63 S. Ct. 773, Justice Frankfurter, speaking for this Court said:

> "The available evidence indicates, therefore, that renewal interests of authors *have been regarded* as assignable both before and after the Copyright Act of

> 1909. *To hold at this late date* that, as a matter of law, such interests are not assignable would be to reject all relevant aids to construction."

Certainly if the law as heretofore generally recognized on this subject is now at this late date to be suddenly changed judicially by overruling numerous previous authorities, we respectfully submit that such holding, if any, should be given only a prospective effect and not a retroactive *ex post facto* effect. *Great Northern Railway Co. v. Sunburst Oil and Refining Co.*, 287 U.S. 358, 77 L. Ed. 360, 53 S. Ct. 145, 85 A.L.R. 254; *Rowan v. Runnels*, 46 U.S. 158, 5 How. 134, 12 L. Ed. 85; *State ex rel State Finance Committee v. Martin*, 62 Wn. 2d 645, 384 P. 2d 833, and cases cited; *Ohio Life Ins. & Trust Co. v. Debolt*, 57 U.S. 442, 16 How. 416, 14 L. Ed. 997.

In the *Debolt* case this Court said:

> "And the sound and true rule is, that if the contract when made was valid by the laws of the State, as then expounded by all the departments of its government, and administered in its courts of justice, its validity and obligation cannot be impaired by any subsequent act of the legislature of the State, or decision of its courts, altering the construction of the law."

See also as to "retroactive hardship": *Lilly v. Commissioner*, 343 U.S. 90, 96 L. Ed. 769, 72 S. Ct. 497, 27 A.L.R. 2d 492.

That this Court may take judicial notice of such well known facts of common knowledge as the urgent need for agricultural financing, see the concurring opinion of Justice Harlan in *Garner vs. Louisiana*, 368 U.S. 157, 195, 7 L. Ed. 2d 207, 232, 82 S. Ct. 248, and cases there cited.

The well settled principle as to estoppel by acceptance of benefits is stated as follows in 19 *Am. Jur.* 682, sec. 64:

"Estoppel is frequently based upon the acceptance and retention by one having knowledge or notice of the facts of benefits from a transaction, contract, instrument, regulation, or statute which he might have rejected or contested. This doctrine is obviously a branch of the rule against assuming inconsistent positions, and it has been said that such cases are referable, when no fraud either actual or constructive is involved, to the principles of election or ratification rather than to those of equitable estoppel. The result produced, however, is clearly the same and the distinction is not usually made. Such estoppel operates to prevent the party thus benefited from questioning the validity and effectiveness of the matter or transaction in so far as it imposes a liability or restriction upon him, or, in other words, it precludes one who accepts the benefits from repudiating the accompanying or resulting obligation. It finds application in many different fields and under a wide variety of circumstances . . . It is also applied . . . to prevent those who have voluntarily become obligated upon a bond and thereby procured a benefit for themselves or for another from questioning its validity after a breach of its condition has occurred."

See also the same effect: *Magee v. United States,* 282 U.S. 432, 75 L. Ed. 442, 51 S. Ct. 195; *Frost v. Corporation Commission,* 278 U.S. 515, 73 L. Ed. 482, 49 S. Ct. 235; *Exchange Trust Co. v. Drainage Dist.*, 278 U.S. 421, 73 L. Ed. 436, 49 S. Ct. 181; *Buck v. Kuykendall,* 267 U.S. 307, 69 L. Ed. 623, 45 S. Ct. 324, 38 A.L.R. 286; *George v. Tate,* 102 U.S. 564, 26 L. Ed. 232; *Daniels v. Tearney,* 102 U.S. 415, 26 L. Ed. 187; *Bankers Trust Co. v. Pacific Employees Ins. Co.,* (C.A. 9) 282 F. 2d 106, cert. den. 368 U.S. 822, 7 L. Ed. 2d 27, 82 S. Ct. 41.

The writ should therefore be dismissed as improvidently granted. *Black v. Cutter Laboratories,* 351 U.S. 292, 100 L. Ed. 1188, 76 S. Ct. 824; *Rice v. Sioux City Memorial Park Cemetery,* 349 U.S. 70, 99 L. Ed. 897, 75 S. Ct. 614;

Layne v. Western Well Works, Inc., 261 U.S. 387, 393, 67 L. Ed. 712, 43 S. Ct. 422.

B. The Licensed Patents have not been misused and such Royalty Contracts are valid.

Moreover petitioners' contention is entirely unsound as a matter of law. Petitioners have wholly failed to sustain their burden of proof as to these afterthought trial amendment affirmative defenses. Respondent has not been guilty of misuse of its patents. As held by both lower courts herein, this royalty arrangement was entirely lawful and proper.

The great weight of authority and the better reasoning support our position that a royalty contract executed while the patents are in effect is legally valid, binding and enforceable although the time for payment of the latter portion of the royalties is extended until after the expiration of the patents, for mutual convenience and for practical financing purposes for the benefit of both parties. This is not against public policy. There is no actual or attempted interference with the subsequent use, either by petitioners or others, of any expired patent which is in the public domain. Such contract is not in violation of any state law, particularly in California or Washington. Consequently under these circumstances public policy is best promoted by allowing freedom of contract by the voluntary acts and agreements of the parties, there being no fraud or mistake, and such freedom of contract is desirable and is for the public good and the same should be permitted, encouraged and facilitated. Such contracts are valid and should be held to be binding and enforceable in the courts.

The leading case on this subject and the most recent decision of this Court as to the validity of patent royalty contracts is *Automatic Radio Manuafacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 94 L. Ed. 1312, 70 S. Ct. 894 (1950), rehearing denied 340 U.S. 846, 95 L. Ed. 620, 71 S. Ct. 13, affirming (C.A. 1) 176 F. 2d 799, which

affirmed 77 F. Supp. 493. In that case, as here, the plaintiff Hazeltine Research, Inc. held numerous patents and the same expired or were adjudged invalid from time to time during the royalty contract period. (This fact is recognized by petitioners.) (Br. p. 33) Hazeltine entered into a written license-royalty contract with the defendant covering the right to use those patents, in consideration of an agreed royalty of a certain percentage of the defendant's total sales proceeds in its business, with an agreed annual minimum royalty of $10,000.00 per year, irrespective of whether or not it used the patents, and irrespective of their expiration dates. The defendant raised numerous alleged defenses, including those relied upon here. The case was considered so clear that the District Court entered a *summary judgment* in favor of the plaintiff without even going to trial, and this was *unanimously affirmed* by both the Court of Appeals and this Court.

In that case, *Hazeltine Research, Inc. v. Automatic Radio Manufacturing Co.*, 77 F. Supp. 493, the District Court said:

> "The contract involved here is essentially a grant by plaintiff of a privilege to defendant to use *any patent or patent application* which might be held by plaintiff in consideration of defendant's agreement to pay money. It is different from most license contracts in that payment of royalties does not depend on the use of plaintiff's patents by defendant, but is required *regardless of any use* by defendant. *This is a convenient mode of operation designed by the parties* to avoid the necessity of determining whether each type of defendant's product embodies any of the hundreds of patents which plaintiff controls. *There is nothing inherently illegal in such an arrangement. H-P-M Development Corporation v. Watson-Stillman Co.*, D.C. 71 F. Supp. 906, 912. *And non-use of the patents is not a defense to an action on the contract*. . .
>
> "Defendant's contention that this method of computa-

tion is a misuse of plaintiff's patents has no merit. This is not an attempt by plaintiff to extend its monopoly to and collect royalties on unpatented articles. (see *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502. . .), but *a convenient mode of computing the cost to defendant for the privilege of using the patents* should defendant desire to make such use. Even where the license contract calls for royalties only when the patent is used, the amount of royalties can be measured by the total price of apparatus embodying unpatented as well as patented items. (Citing cases) . . .

"The contract represents, on its face, a legitimate business bargain, and is in no way oppressive or unconscionable. . . .

"Defendant thus gets, by the contract, what it bargained for, namely *the right to use* whatever patents are available for use in plaintiff's large collection. It cannot complain that there is a failure of consideration if a particular patent has been invalidated even though it be the only patent he desired to use.

"Defendant has made an extensive argument to the effect that the restriction on use which is imposed by the license notice required by Article VI of the contract is illegal in that it constitutes an attempt to extend the monopoly of the patent beyond its legitimate scope; . . . As between the licensor and the licensee, the former can certainly restrict the licensee to manufacture and sales for limited use. *General Talking Pictures Corporation v. Western Electric Co., supra.* Even if the restriction imposed on a purchaser from the licensee should be invalid, *there is no reason for permitting the licensee to escape its contract obligations thereby.*"

In *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, (C.A. 1) 176 F. 2d 799, Chief Judge Magruder, speaking for the Court said:

"Appellant has advanced a variety of defenses to sustain the proposition that Hazeltine has so misused the monopoly of its patent grants as to have disentitled itself to any relief under the present complaint. . . .

"We must conclude from the decision in the *General Talking Pictures* case that a license agreement is not necessarily invalid because the licensee is granted a restricted right to make and vend a patented apparatus for use limited to a particular, described field, and is required by the agreement to affix to the licensed apparatus a notice of restricted use. . . .

"The district court correctly ruled that, even assuming arguendo that Hazeltine was engaged in an unlawful scheme to maintain a monopoly, the license contract in suit was not an integral part of it; that the license agreement, being itself a valid contract, will not be rendered unenforceable by collateral activities of the plaintiff in violation of the antitrust laws. 2 *Restatement*, Contracts sec. 1661, Rev. Ed. 1937; 2 *Walker Patents*, sec. 409, Deller Ed. 1937. See also *Bruce's Juices, Inc. v. American Can Co.*, 1947, 330 U.S. 743, 754, 755-756, 67 S. Ct. 1015, 91 L. Ed. 1219. *Morton Salt Co. v. G. S. Suppiger Co.*, 1942, 314 U.S. 488, 62 S. Ct. 402, 86 L. Ed. 363, *is no authority for the proposition that a contract action for patent royalties may be bogged down by the defendant into a complicated and protracted trial of asserted collateral infractions of the anti-trust laws.* And see *Radio Corporation of America v. Majestic Distributors*, D. C. Conn. 1931, 53 F. 2d 641, 642-643, and cases cited. . . .

"Notwithstanding the failure of Automatic to attach the restrictive use notices, Hazeltine is entitled to insist upon the performance by Automatic of its contract obligation under Article IV to pay as royalties a percentage of the selling price of each complete apparatus of the types listed in Article III, Section 2, 'sold by Licensee during continuance of this license' . . ."

This Court in *Hazeltine* affirmed the judgment in favor of the plaintiff and held inapplicable the antitrust cases and the "tie-in" cases relied upon by the defendant therein and herein, and said:

> "It is insisted that the license agreement cannot be enforced because it is a *misuse of patents* to require the licensee to pay royalties based on its sales, even though none of the patents are used. Petitioner directs our attention to *the 'Tie-in' cases*. These cases have condemned schemes requiring the *purchase of unpatented goods for use with* patented apparatus or processes, prohibiting production or sale of competing goods, and conditioning the granting of a license under one patent upon the acceptance of another and different license. Petitioner apparently concedes that these cases *do not, on their facts, control the instant situation. It is obvious that they do not*. . . .
>
> "But petitioner urges that this case 'is identical in principle' with *the 'Tie-in' cases*. . . *The principle of those cases cannot be contorted to circumscribe the instant situation. This royalty provision does not create another monopoly;* it creates no restraint of competition beyond the legitimate grant of the patent. *The right to a patent includes the right to market the use of the patent at a reasonable return*. . . .
>
> "The licensing agreement in issue was characterized by the District Court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties. *Payment for the privilege is required regardless of use of the patents.* The royalty provision of the licensing agreement was sustained by the District Court and the Court of Appeals on the theory that it was a *convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents. . . The Court of Appeals reasoned that *since it would*

not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's-sales for the same privilege. . . . Numerous District Courts which have had occasion to pass on the question have reached the same result on similar grounds, *and we are of like opinion.*

"The mere accumulation of patents, no matter how many, is not in and of itself illegal. . . We cannot say that payment of royalties according to an agreed percentage of the licensee's sales is unreasonable. Sound business judgment could indicate that such payment represents *the most convenient method* of fixing the business value of the privileges granted by the licensing agreement. . . . But as we have already indicated, there is in this royalty provision no inherent extension of the monopoly of the patent. Petitioner cannot complain because it must pay royalties whether it uses Hazeltine patents or not. *What it acquired by the agreement into which it entered was the privilege to use any or all of the patents and developments as it desired to use them. If it chooses to use none of them, it has nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continous research.* We hold that in licensing the use of patents to one engaged in a related enterprise, *it is not per se a misuse of patents* to measure the consideration by a percentage of the licensee's sales. . . *There is no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy.*"

We submit that the *Hazeltine* case is decisive of the present litigation in favor of respondent. If there is any inconsistency between *Scott* and *Hazeltine,* the latter, having been decided 5 years later, is of course controlling.

The legal principle is well settled that, in the absence

of a contrary agreement, a license contract expires when the licensed patent expires, but the parties may expressly contract to the contrary, and a royalty contract for a period expiring subsequent to the expiration of such licensed patent is valid and binding.

In *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906, 913, the court said:

> "Defendant's objection that the provisions of the agreement exact a royalty to be paid upon patents of plaintiffs which have expired is without merit. . . . But even if this were so, parties have been held to have legally agreed to pay royalties upon expired patents under certain circumstances. *Pressed Steel Car Co. v. Union Pacific Ry.*, 2 Cir., 1920, 270 F. 518. Nor does this objection, taken together with the others raised by the defendant, at this stage of the proceedings herein compel the view that the whole contract forms a pattern or design to extend plaintiff's patent monopoly or suppress competition."

In *E. R. Squibb & Son v. Chemical Foundation*, (C.A. 2) 93 F. 2d 475, 477, (Judge Learned Hand being one of the concurring judges), the Court said:

> "There is a presumption that royalties are not to be paid after the expiration of a patent; *if the intention is to have them continue longer, the parties should phrase their contract in language from which such intention may fairly be inferred.*"

In 69 *C.J.S.* 780, sec. 252, the rule is stated as follows:

> "In the absence of an express provision on the subject, a license continues until the expiration of the original term of the patent but not beyond. *However an express stipulation in the contract as to the duration of the license will control.*"

In 69 *C.J.S.* 801-2, sec. 262, it is said:

"As a general rule, however, the terms of the contract control as to the time during which royalty payments are to be made. (Citing numerous cases). An agreement confirming the right to use a patent may lawfully provide for the annual payment of a fixed amount during the life of the agreement, and as discussed infra sec. 284, *nonuser by the licensee during any particular year does not render the agreement unenforceable*. In general where the terms of the license as fixed by the contract is the life of the patent, the obligation to pay royalties continues during such term, and as a general rule the liability for royalties continues during the life, and terminates at the expiration, of the patent, *although the parties may contract to the contrary*."

In *Starke v. Manufacturers National Bank*, 174 F. Supp. 882, 884, affirmed on the same opinion (C.A. 6) 283 F. 2d 117, the court said:

"*Parties to a licensing agreement may provide that the agreement shall extend beyond the life of the patent. In the absence of such express provision*, a licensing agreement terminates with the expiration of the patent."

In *Tate v. Lewis*, 127 F. Supp. 105, 107, the court said:

"*Although a party may agree to pay royalties after the expiration of a particular patent*, there is a presumption that he did not so intend, and the obligation must be clearly and specifically expressed."

To the same effect see *Carter Products, Inc. v. Colgate-Palmolive Co.*, 164 F. Supp. 503, 525, affirmed (on other grounds; C. A. 4) 269 F. 2d 299.

In addition to the numerous federal cases herein cited and the text writers (Ellis, Walker-Deller, and C.J.S.) which definitely support our position, the several deci-

sions of the highest state courts which have considered the question are unanimously to the same effect.

We particularly request ~~the~~ Court to carefully read the decisions of the courts below herein, *Thys Co. v. Brulotte*, 62 Wn. 2d 284, 382 P. 2d 271 (R. 106-116) and the decision herein of the trial court, Judge Lloyd L. Wiehl (R. 82-89).

In *Six Star Lubricants Co. v. Morehouse*, 101 Colo. 491, 74 P. 2d 1239, 1242, the court said:

> "*There was no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents.* 48 C. J. 277, sec. 451; *Mitchell v. Hawley*, 16 Wall. 544, 21 L. ed. 322; *Pressed Steel Car Co. v. Union P. R. R. Co.*, 2 Cir. 270 F. 518. . . Under these circumstances, we do not believe that we should declare, as a matter of law, that the contract of October 26, 1925, terminated upon the expiration of the patents. . . .
>
> "When the parties entered into the contract, they knew of the expiration dates of the patents, and, if defendant saw fit to contract for royalty beyond such a time, *it may not now complain of an anticipated condition brought about by operation of law.*"

In *Adams v. Dyer*, 129 Cal. App. 2d 160, 276 P. 2d 186, an action for declaratory relief which squarely presented this same legal question, the court reversed a judgment in favor of the licensee and held:

> "Under contract requiring licensees to pay royalties to licensors so long as meters were manufactured and sold by licensees, expiration of patent on meters did not end liability of licensees to pay royalties on meters manufactured." (Syll. 2)

The court said:

"The contract provides, 'Said payments shall continue so long as said Oil Weight Meters are manufactured and sold by the said parties of the first part or their assigns or successors in interest. . . .

"The appeal presents purely a matter of law, to-wit; the interpretation and construction of the contract dated April 26, 1947, and the determination as to whether or not the undisputed facts show any termination or ending of said contract.

"Although the patent to the Oil Weight Meter was referred to in the contract dated, as above noted, April 26, 1947, respondent argues that, "the patent expired on March 31, 1948, and thereafter was public property, and that anybody in the world could manufacture and sell or manufacture or sell the device without let or hindrance of any person whomsoever." . . .

"*Respondent's contention relating to the effect of the patent cannot be upheld. The patent and the expiration thereof are beside the issue and furnish no retreat for respondent. . . .*

"Respondent's contentions are without support in the record both as to the facts and as to the law, and the findings as contended by appellant are not supported by the evidence. The judgment is reversed."

The Washington decision herein was quoted, approved and followed in the very recent 1964 unanimous decision of the Supreme Court of Nebraska in *McLeod v. Crawford*, 176 Neb. 513, 126 N.W. 2d 663, 669-670. The court affirmed judgment for the plaintiff in an action to recover royalties under a license contract which extended after the expiration of the final patent involved on May 18, 1954. The defendant made the same contentions and cited the same cases as here. Chief Justice White, speaking for the court said:

"This retroactive attack on the expiration date of the patent amounts to no more than a claim that someone could have used the machine after May 1, 1954. There is no evidence that anyone did. To sum it up, the conduct of the defendants, *their acceptance of benefits, and their continued use* demonstrated conclusively that they themselves interpreted the contract squarely consistent with the interpretation and the reasons therefor set out in *Medd v. Boyd Wagner, Inc., supra* (133 F. Supp. 807 and other cases cited). . . .

"The restricted holding in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, supra (302 F. 2d 496) of illegality as to collection by the patent owner beyond patent term, seems to be *contrary to authority and the best reasoning, and has already been refused acceptance by the courts.* In that case the court noted that the general rule seemed to be to the contrary and cited to this effect. . . (citing authorities)"

Referring to the *Scott, Securit*, and *Ar-Tik* cases relied upon by defendants in both cases, the Nebraska court distinguished and refused to follow them, saying:

"They all involve the attempt to recreate a patent monopoly on completely expired patents, or an attempt to tie in a group of patents in violation of the principle of combinations in restraint of trade. . .

"The defendants either had actual or constructive notice of the expiration date of May 18, 1954. . . The defendants would have us believe that they had a right to buy and use the machines . . . and be completely free of their voluntarily assumed obligation under the contracts. All this because the patent . . . expired as a matter of public record on May 18, 1954. *Such a position is untenable*. . .

"From what has been said, these contracts are valid, enforceable agreements. They are not tainted with

illegality. The defendants voluntarily measured their obligation. . . *No reason exists why they should not pay for the benefits they received and the obligations they caused themselves under the contracts.*"

In *Bettis Rubber Co. v. Kleaver,* 104 Cal. App. 2d 821, 233 P. 2d 82, the court quoted with approval *Squibb* and *Sproull* and said:

"The law presumes that royalties are not to be paid after the expiration of a patent, *but the parties may contract to the contrary.*"

In *April Products, Inc. v. G. Schirmer, Inc.* 122 N. Y. S. 2d 888, a copyright case involving the same question, the court held in accord with our contention, saying:

"Consideration for the obligation having existed when the contract was made, that consideration does not become nugatory or lose its effectiveness by the passage of time or by the fact that the record ownership of the copyrights after 28 years vested in a third party."

On appeal of the same case, 283 App. Div. 1037, 284 App. Div. 639. 131 N. Y. S. 2d 341. the court held to the same effect saying:

"There can be no question that the Shuberts and the publisher could have agreed on any term for the payment of royalties. The period could have been less than the term of the copyright, for the term of the copyright, *or for a period extending beyond the term of the copyright. Indeed, the parties could have agreed upon a lump sum payment, or installments, or for royalties of indefinite duration,* in each case as consideration for the right to publish the musical selections, which right the Shuberts at the time had the power to extend."

In *April Products, Inc. v. G. Schirmer, Inc.*, 308 N.Y. 366, 126 N.E. 2d 283, 287, 69 A.L.R. 2d 1305, 1311 (1955) the New York Court of Appeals (although citing the Scott case as perhaps raising a question, and although reversing on other grounds) held to the same effect. Judge Fuld, speaking for the court said:

> "Our reading of the contract in suit . . . is re-enforced by *an established rule of construction applied in the analogous field of patent royalty agreements.*"

After quoting *Squibb* and citing *Tate* and *Dwight*, the court continued:

> "*The same rule should apply* to royalty agreements involving copyrighted literary property . . . The agreement may not, therefore, *in the absence of express language*, not here present, be construed to require payment of royalties after the expiration of the underlying copyrights."

In *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, 178 Fed. Supp. 655, 664, affirmed *per curiam* on the same opinion (C. A. 2) 280 F. 2d 197, (although citing Scott as possibly raising a question) Judge Bryan held that pursuant to their 1885 contract summary judgment should be granted requiring the agreed payment for the right to manufacture and sell "Listerine" having a secret formula (although unpatented) even after a subsequent general disclosure, and that such liability continued indefinitely in the future. After referring to the *April* case, the court said:

> "The court therefore applied *the usual rule in patent and copyright cases* that a license agreement under a patent or copyright, *in the absence of express language to the contrary*, is construed to require the payment of royalties only until the expiration of the underlying grant. . . . Once a contract is supported by consideration, its terms are up to the parties. Whether the

consideration is adequate or not is no concern of the court. . . *The parties are free to fix their own terms,* and they have done so here."

As pointed out in footnote 11, page 506 of the *Ar-Tik* case (302 F. 2d 496):

"The English rule would also seem to permit such an agreement. *Siemens v. Taylor,* 9 R.P.C. 393 (1892); *Terrell and Shelley, Patents,* p. 234 (10th Ed. 1961 Shelley)."

See also to the same effect:

Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649; *Well Surveys, Inc. v. McCullough Tool Co.,* 199 F. Supp. 374, 395-6, 398; *Pressed Steel Car Co. v. Union Pacific Ry. Co.,* (C. A. 2) 270 Fed. 518, 525; *Dwight v. American Ore Reclamation Co.,* 44 F. Supp. 396, 398; *Zajicek v. Koolvent Metal Awning Corp.,* (C. A. 9) 283 F. 2d 127, certiorari denied 365 U.S. 859, 5 L. Ed. 2d 823, 81 S. Ct. 827; *Sproull v. Pratt & Whitney Co.,* (C. A. 2) 108 Fed. 963, 965; *Chicago Pneumatic Tool Co. v. Ziegler,* (C. A. 3) 151 F. 2d 784; *Hope Basket Co. v. Product Advancement Corp.,* (C. A. 6) 137 F. 2d 1008, 1011-2, certiorari denied 343 U.S. 833; 48 *C. J.* 271, 277, sec. 428, 451, and cases cited; *Ar-Tik Systems v. McCullough,* 133 F. Supp. 807; *Ellis, Patent Licenses,* (3 ed.) 118, sec. 98A and 128, sec. 109; *American Type Founders v. Lanston Monotype Mach. Co.,* (C. A. 3) 137 F. 2d 738; 2 *Walker, Patents* (Dellers Ed.) p. 1508, sec. 392 and 1961 Supp. p. 456 and 1963 Supp. p. 552, 555, 561; *Union County Trust Co. v Sun Chemical Corp.,* 163 F. Supp. 805, affirmed (C. A. 3) 257 F. 2d 810; *George W. Ashlock Co. v. Atlas-Pacific Engineering Co.,* 225 F. Supp. 205, 219-220; *Pearson, Inc. v. John Rust Co.,* (Ark.) 268 S.W. 2d 893, 897; *Shicca-Del Mac v. Millius Shoe Co.,* (C. A. 8) 145 F. 2d 289, 301.

Also as this Court said in *United States v. Masonite Corp.*, 316 U.S. 265, 86 L. Ed. 1461, 62 S. Ct. 1070:

> "The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

In the leading case of *United States v. General Electric Co.*, 272 U. S. 476, 71 L. Ed. 362, Chief Justice Taft, speaking for a unanimous Court said:

> "Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent *for any royalty or upon any condition the performance of which is reasonable* within the reward which the patentee by the grant of the patent is entitled to secure. . .
>
> "*We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. . . .*
>
> "*The very object of these laws is monopoly* and the rule is with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 86 L. Ed. 1408, 62 S. Ct. 1088, Chief Justice Stone, speaking for this Court unanimously, clearly pointed out this fundamental distinction, saying:

> "*We have no question here of what other stipulations, for royalties or otherwise, might have been exacted*

as a part of the entire transaction, which do not seek to control the disposition of the patented article after the sale."

In *Pyrene Manufacturing Co. v. Urquhart*, 69 F. Supp. 555, 560, affirmed (C. A. 3) 175 F. 2d 408, certiorari denied 338 U.S. 826, 94 L. Ed. 502, 70 S. Ct. 73, Judge Kirkpatrick said:

> "*So far as the royalty which the manufacturing licensees pay is concerned, the arrangement is not objectionable, since any convenient method of fixing a royalty fee may be adopted,* including using the price of unpatented articles sold with the equipment as a basis."

In *Stearns v. Tinker & Rasor*, (C. A. 9) 252 F. 2d 589, 604-5, cert. den. 350 U.S. 830, Chief Judge Stephens, speaking for the court quoted the *General Electric* case and said:

> "Stearns owns a patent on a particular device and is legally allowed to charge for the grant of a license an amount that will allow it to realize the reward to which, as the owner of the patent, it is entitled. . . .
>
> "To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement made subject to court approval. No cases have gone that far."

See also to the same effect: *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124, 83 L. Ed. 81; *U. S. v. General Electric Co.*, 82 F. Supp. 753, 776; *Eversharp v. Fisher Pen Co.*, 204 F. Supp. 649.

In *Thys v. State of Washington*, 31 Wn. 2d 739, 199 P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, involving the same contract, the court held that these royalties were part of the legitimate reward of

Thys for his research as an inventor, and the same were properly considered a part of the purchase price and hence subject to the Washington state sales tax, and until full payment of the royalties the patentee had not received his lawful reward for the use or right to use the patented inventions.

Suppose that the royalty was a total agreed lump sum, such as $8,500.00, payable without interest in 17 equal annual installments, extending after the patent expiration dates. Or suppose that one year prior to the expiration of the patents, at the request of the machine purchaser the parties mutually agreed to an extension of time for payment of the balance of the royalties until one year subsequent to the last patent expiration date. Certainly such a plan would be lawful. The same should be true here.

For each year subsequent to 1956 (when numerous Thys patents were still in effect) until the expiration of their contracts *respondent recovered from each petitioner only the minimum annual royalty of $500.00 plus tax.* (R. 97-104).

We submit that this mutually convenient and satisfactory payment plan is entirely sound, equitable, and lawful, and petitioners should not be permitted to escape or evade their just contractual obligations thereunder. Petitioners, after having accepted the benefits of this arrangement, should not now be permitted at this late date to complain of "unclean hands" or alleged misuse caused by an *anticipated* condition brought on by operation of law.

In any event respondent would of course in all fairness at least be entitled to recover the royalties for the agreed period accrued up until the last final expiration date of all of the patents involved.

C. Misuse, if any, is not a defense in Royalty Contract Action at Law.

The patent misuse doctrine is not based on statute, but arises from the decisions of this Court. The same is an application of the "unclean hands" equitable maxim and is applicable only to equity actions, such as patent infringement injunction suits. Consequently misuse, even if it exists, is not a defense in an action at law of this nature to recover merely a money judgment on a royalty contract.

As this court said in *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402:

> "The question we must decide is . . . whether a *court of equity* will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article. . . . The use of it to suppress competition in the sale of an unpatented article may deprive the patentee *of the aid of a court of equity to restrain an alleged infringement* by one who is a competitor. . . . *Equity may rightly withhold its assistance* from such a use of the patent by declining to entertain *a suit for infringement.*"

In *Eakins v. Auto Arc-Weld Manufacturing Co.*, (Ohio) 175 N.E. 2d 221, 236, the court said:

> "*The defense of 'unclean hands' is not maintainable in a legal action on the contract for royalties. . .* This defense does not lie."

See also to the same effect: *Keystone Trailer Co. v. General Excavator Co.*, 290 U.S. 240, 244, 78 L. Ed. 293, 296, 54 S. Ct. 146; *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814, 89 L. Ed. 1381, 1386, 65 S. Ct. 993; *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 88 L. Ed. 376, 64 S. Ct. 268; *Koolvent Metal Awning Corp. v. Bowden*, (C. A. 8) 205 F. 2d 209, 214; *Marvel Specialty Co. v. Bell Hosiery Mills, Inc.*, 216 F. Supp. 824, 829; *Ford v.*

Buffalo Eagle Colliery Co., (C. A. 4) 122 F. 2d 555, 563; *Harvey v. Levine*, 204 F. Supp. 947, 959; *I. C. E. Corp. v. Armco Steel Corp.*, 201 F. Supp. 411, 414; *Revlon, Inc. v. Regal Pharmacy, Inc.*, 29 F.R.D. 169, 177.

D. No Antitrust Law Violation.

It is well settled that antitrust defenses in contract actions are not favored.

In *George Hantscho Co. v. Miehle-Goss-Dexter, Inc.*, 33 F.R.D. 332, 334, an action to recover on a patent license contract, Judge Palmieri said:

> "*Antitrust defenses to actions based on contracts are not favored by the courts.* . . Thus, even if the challenged provision would partake of illegality in an antitrust proceeding brought by the Government, their effect in an action between private parties for breach of contract. . . would not necessarily be to deny plaintiff any or all of the relief it seeks."

In *Kelley v. Kosuga*, 358 U.S. 516, 519, 3 L. Ed. 2d 475, 478, 79 S. Ct. 429, cited in the *Hantscho* case, Justice Brennan, speaking for this Court said:

> "The federal courts should not be quick to create a policy of non-enforcement of contracts beyond that which is clearly the requirement of the Sherman Act. . . . In any event where, as here, a lawful sale and a fair consideration constitutes an intelligible economic transaction in itself, we do not think it inappropriate or violative of the intent of the parties to give it effect even though it furnished the occasion for a restrictive agreement of the sort here in question."

See also Note in *27 U. Chi. L. Rev.* 758.

As this contention of petitioners is primarily grounded upon their first contention of alleged misuse through collection of so-called post-expiration royalties, we submit

that the same is completely unsound for the reasons hereinabove stated. In fact this antitrust contention under these undisputed facts is wholly fallacious and absurd. Clearly respondent has never had nor sought a monopoly on hop picking machines. Admittedly petitioners and other machine purchasers during the 1950's had been using these portable picking machines less and less and harvesting either all or a substantial part of their hops by the use of the newer, keenly competitive stationary hop picking machines. Under such circumstances it seems quite ridiculous for petitioners to assert that they or the public are injured by respondent's alleged monopoly, especially when their own admitted actions show that no such monopoly exists.

Moreover, respondent has never suppressed competition nor interfered in any manner with the use of any picking machines in the public domain. Respondent has merely insisted that the machine purchasers pay their agreed royalties in accordance with their contractual obligations. There has been no picking machine monopoly and no contract in unreasonable restraint of trade in interstate commerce. Consequently there has been no violation of the cited sections 1 or 2 of the Sherman Act nor any antitrust laws.

> "That *only those restraints upon interstate commerce which are unreasonable* are prohibited by the Sherman Law was the rule laid down by the opinion of this Court in the Standard Oil and Tobacco Cases."

U. S. v. Trenton Potteries Co., 273 U. S. 392, 71 L. Ed. 700, 47 S. Ct. 377, 50 A.L.R. 989.

Furthermore as held in *Thys v. State of Washington*, 31 Wn. 2d 739, 199 P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, these machines were manufactured by Lindeman and sold in Washington, and respondent was not and is not engaged in interstate commerce.

Likewise 35 *U. S. C.* 154 is not applicable because respondent has never attempted to unlawfully extend the *monopoly* of a patent nor "*to exclude others* from making, using, or selling the invention" of a patent after its expiration. There was here no violation of the federal antitrust laws by respondent.

In *Cole v. Hughes Tool Co.,* (C. A. 10) 215 F. 2d 924, 936, cert. den. 348 U.S. 927, 99 L. Ed. 726, Chief Judge Philips, speaking for the court said:

> " . . . . The Sherman Act was not directed against one 'who happens by his skill and energy to command an innocent and legitimate monopoly of a business. One who gains a large portion of a market by manufacturing a better product and by furnishing better service to his customers, which constitutes legitimate competition, is not denounced by the Sherman Act.
>
> "The maintenance of a research department, the carrying on of intensive research, constant efforts to improve the manufactured products and to render better service to customers by a manufacturer are not condemned by sec. 1 and are not a violation of sec. 2 of the Sherman Act. That Act does not condemn business success, arising from quality and performance of a manufacturer's product."

See also: *North Drive-In Theatre Corp. v. Park-In Theatres, Inc.,* (C. A. 10) 248 F. 2d 232, 236; *Binks Manufacturing Co. v. Ransburg Electro-Coating Corp.,* (C. A. 7) 281 F. 2d 252, 258; *Lawlor v. National Screen Service Corp.,* (C. A. 3) 270 F. 2d 146, 154; *Radio Corporation of America v. Majestic Distributors,* 53 F. 2d 641, (cited with approval in *Hazeltine*).

Moreover, as stated in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,* (C. A. 1) 176 F. 2d 799, 805, *supra,* affirmed by this Court:

"The district court correctly ruled that, even assuming *arguendo* that Hazeltine was engaged in an unlawful scheme to maintain a monopoly, the license contract in suit was not an integral part of it; that the license agreement, being itself a valid contract, will not be rendered unenforceable by collateral activities of the plaintiff in violation of the anti-trust laws. . . . Morton Salt Co. v. G. S. Suppiger Co., 1942, 314 U.S. 488. . . . *is no authority for the proposition that a contract for patent royalties may be bogged down by the defendant* into a complicated and protracted trial of asserted collateral infractions of the anti-trust laws."

See also to the same effect the authorities therein cited.

Petitioners overlook that this Court granted certiorari as to only questions 1 and 2 in their petition (p. 2; R. 116, 117) and *denied the same* as to question 3 which stated:

"3. Whether it is a misuse or an antitrust violation to condition the grant of a license under one patent or group of patents on the acceptance of a license under a group of additional patents and pending applications."

Notwithstanding this, they have reargued question 3 at length, which we submit is entirely improper. As held by both courts below, there was here *no coercion nor unlawful mandatory* package licensing. It is undisputed that neither petitioners nor any other machine purchaser ever requested a license as to some but not all of respondent's patents. They wanted the right to use a certain patented portable hop picking machine and improvements thereof, and consequently *respondent, without any additional royalty charge, included, as in Hazeltine, the licensed right to use all patents which it had or might thereafter obtain.*

Petitioners rely upon the "tie-in" cases, but they were definitely distinguished and held inapplicable by this Court and the lower courts in *Hazeltine*. Factually it is

undisputed that respondent has never required petitioners nor others to use any unpatented materials in or with these machines. Respondent has not controlled nor restricted the use or operation of these machines or its competitors' machines in any manner whatever. Consequently the "tie-in" cases have no material bearing herein.

E. Petitioners' Authorities Are Clearly Distinguishable.

We have examined the cases cited by petitioners and find that all of them are clearly distinguishable on their facts from the instant case.

Petitioners repeatedly cite *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 90 L. Ed. 47, 66 S. Ct. 101, (a 6 to 2 decision which has been frequently criticized), but it was a suit to enjoin patent infringement and *did not involve any royalty contract at all.* Defendant had previously assigned to plaintiff the patent in suit. The Court merely held that the defendant assignor was not estopped by virtue of the assignment to defend a suit for infringement of the assigned patent on the ground that the patent was invalid and that the alleged infringing device was that of a prior art expired patent. Obviously no such question is involved herein. Petitioners add emphasis to the word "free" used therein, but manifestly that word has several meanings. As no question of royalties was involved therein, this Court in using the term clearly *was not referring to royalties* nor using it in the sense argued by petitioners of free from a *financial* standpoint. In such a patent infringement suit the expiration date of a patent obviously has a much greater significance than in an action to recover on a royalty contract. Respondent was not "withholding from the public" the right to use any expired patents, as in *Scott*, and did not "recapture any part of the former patent monopoly." *Scott* was cited 5 years later in the dissenting opinion in *Hazeltine*, and consequently was not overlooked. Petitioners' contention that *Scott* is decisive of the instant case is therefore wholly unfounded.

As well stated in *Reynolds Metal Co. v. Skinner,* (C. A. 6) 166 F. 2d 66, 73, certiorari denied, 334 U.S. 858, 92 L. Ed. 1778, 68 S. Ct. 1528:

> "The controversy involves not a question of infringement, but a question of *royalties due under a contract.* Technical considerations of patent law are therefore not controlling. . . . *The rules announced in infringement cases such as Scott Paper Co. v. Marcalus Mfg. Co., Inc., . . . have no bearing here.*"

American Securit Co. v. Shatterproof Glass Corp., (C. A. 3) 263 F. 2d 769, is likewise clearly distinguishable. It must be considered in the light of the unusual factual situation there presented. That case likewise was not an action to recover on a royalty contract, but was another suit to enjoin patent infringement. The court there referred to the "*aggravating hardship*" caused by the plaintiff's conduct. Plaintiff held 35 patents for glass manufacturing and claimed that defendant infringed 4 of them. Previously the government had sued plaintiff and others charging violation of the antitrust laws, and a *consent decree* had been previously entered therein, which among other things required issuance of licenses upon request. Defendant had requested a license pursuant thereto, but plaintiff arbitrarily refused to issue any license under any of the patents unless all of them were included in the license at an excessive royalty rate. Voluminous correspondence between the parties resulted and plaintiff stalled for four years in violation of the consent decree and never did give the defendant the requested license. The plaintiff literally "*compelled* a licensee to accept a package of patents or none at all." Here there were no such negotiations between the parties and no such mandatory requirements. It is true that the same contains a brief obiter dictum somewhat tending to support petitioners' present contention, but there is *no discussion and no citation of any authority holding either way* on the question, and the primary ground for the dismissal was compulsory package licensing. Moreover as pointed out by the trial court here-

in, the *Securit* doctrine should not apply where the license is obtained for a *single* definite machine *and improvements* thereto. (R. 86-89) Also at page 775 the court stated that *the "substantial issue presented"* therein was whether the *mandatory package licensing* was a violation of the consent decree and also a patent misuse.

Ar-Tik Systems, Inc. v. Dairy Queen, Inc., (C. A. 3) 302 F. 2d 496, decided by the same court in 1962 long after the expiration of these contracts, is the only case cited which somewhat tends to support petitioners' position. The contract there required royalty payments to continue "*during the life of the license,* regardless of the expiration of any patents." After citing a considerable number, but by no means all, of the authorities holding to the contrary, two of the judges held that such a provision was not enforceable. It will be noted that the provision was much more far-reaching than in the instant case. Circuit Judge McLaughlin dissented, and also District Judge Lord held to the contrary. Clearly the majority decision is contrary to the great weight of authority and to the better reasoning, and the same should not be followed.

In an interesting law review article discussing *Ar-Tik,* 31 Geo. Wash. L. Rev. 535, it is well said:

> "Despite the court's reliance on Scott and Securit, the principal case *apparently is the first* to apply the patent misuse doctrine to a contract extending royalty payments beyond the expiration of the patent, where such agreement was not coupled with a package licensing requirement."

We wish particularly to emphasize the final footnote 37 of this article which well states:

> "It would seem that in some situations *such an agreement might be justifiable as a convenient method of operation because of its extension of royalty payments*

over a period of time. Cf. *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). Such a payment method also may be advantageous for tax reasons. But in the principal case, as testified to by the president of Ar-Tik Systems, *the royalties were payable indefinitely.* . . Thus it could not be considered merely a *convenient method of payment.*"

Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1, likewise was not a royalty action, but merely the decision of the trial court in a patent infringement suit. Anything stated therein on this subject was pure dictum, as the court held that the patents were invalid and not infringed. The court did not mention any of the numerous authorities in our favor nor even *Ar-Tik* which cites them, but held that additional evidence would be necessary before a definite ruling could be made on the "unclean hands" defense. The case did not involve one single machine unit, as in this case, but numerous products and methods in the electronics field. The case is therefote clearly distinguishable. The court recognized this by stating at page 46:

> "This defense, which is one of unenforcibility, is immaterial if the court's conclusion as to invalidity is sound."

The case was affirmed in a short *per curiam* decision on the sole ground of invalidity of the patents. (327 F. 2d 497)

Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 11 L. Ed. 2d 661, 84 S. Ct. 784, and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 11 L. Ed. 2d 669, 84 S. Ct. 779, companion cases, were suits for patent infringement and unfair competition and did not involve any royalty contract. There had been no expiration of a patent, and *no question of patent expiration was in any manner involved.* The lower courts *held the patents invalid*, and that issue was not reviewed by this Court. Consequently the

products involved, *never having been validly patented,* were at all times in the public domain. These cases are therefore clearly inapplicable.

Likewise *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 83 L. Ed. 73, and *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 41 L. Ed. 118, cited in *Sears, did not involve any royalty or license contract.* In both cases the Court merely held that, *in the absence of any such contract,* after all of the patents involved had expired, the patentee *could not enjoin* alleged infringement or use thereof on the theory of unfair competition, there being no deception or confusion of the public, and the "Singer" name being generic.

U. S. v. Paramount Pictures, Inc., 334 U.S. 131, 92 L. Ed. 1260, 68 S. Ct. 915, was a government antitrust injunction suit and involved copyrights of motion picture films. The Court held illegal the compulsory "block-booking" scheme whereby motion picture theatres *were required to exhibit and make additional payments for inferior films* in order to obtain the better quality desired films. Obviously no such factual situation is involved herein.

U. S. v. Loew's, Inc., 371 U.S. 38, 9 L. Ed. 2d 11, 83 S. Ct. 97, merely held *Paramount* applicable under the same facts to the television industry. It likewise was a government antitrust injunction suit relating to copyrights. None of these cases involved any claim for patent royalties.

Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 88 L. Ed. 396, 64 S. Ct. 278, and *Mercoid v. Mid-Continent Invest. Co.*, 320 U.S. 661, 88 L. Ed. 376, companion cases, also were patent infringement suits and not royalty contract actions. These were "tie-in" cases wherein the patentee required the purchase and use of unpatented materials, namely combustion stoker switches manufactured by it, in its patented heating systems. Respondent, however, has never required the use of un-

patented materials with these picking machines. Because of Mercoid, Congress later amended the patent statute. *Stearns v. Tinker & Rascor*, (C. A. 9) 252 F. 2d 589, 601, cert. den. 350 U.S. 830.

Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 61 L. Ed. 871, 37 S. Ct. 416, did not involve a claim for royalties at all and merely held that a patentee may not license another to manufacture and sell the patented motion picture exhibiting machine and *by a mere notice attached to it* limit use by the purchaser to certain unpatented films. However, the Court said:

> "The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise *by special contract between the owner of a patent and the purchaser or licensee* is a question outside the patent law, and with it we are not here concerned."

In *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 39 L. Ed. 848, 15 S. Ct. 738, cited in *Motion Pictures*, this Court said:

> "Whether a patentee may protect himself and his assignees *by special contracts brought home to the purchasers* is not a question before us, and upon which we express no opinion. It is however obvious that such a question would *arise as a question of contracts*, and not as one under the inherent meaning and effect of the patent laws."

Scapa Dryers, Inc. v. Abney Mills, (C. A. 5) 269 F. 2d 6, involved no question as to royalties whatever. The court construed an exclusive franchise contract and held that there was no intention of the parties thereunder that one of the parties, Hindle, should be *permanently excluded* from selling certain looms "beyond the time when *all of the patents* described in the agreement had expired".

In *Prestole Corp. v. Tinnerman Products, Inc.*, (C. A. 6) 271 F. 2d 146, the issue was not for what period of time royalties were collectable. The license contract prohibited the licensee from using the licensed patents in any device which had a "thread engaging portion as described in (three) certain patents," one of which had expired when the contract was entered into. The court merely held that *this prohibition of use* was illegal, as the expired patent was then part of the public domain. As correctly stated in the State Supreme Court opinion herein:

> "These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period." (*Italics the court's;* R. 111)

F. Public Policy Requires Freedom of Contract.

Here in a nutshell is the key solution of this entire problem:

Scott holds merely that it is against public policy and unlawful *to enjoin infringement or to prevent the actual use* of an invention after the expiration of all of the patents covering it. This was on the ground that the same would be an unlawful extension of the patent monopoly *by interference with the actual use* of an invention which was then in the public domain. This Court has never gone any further than this in any case cited by petitioners.

But here, after expiration of any of these patents, respondent *has never obtained any injunction nor prevented either petitioners or anyone from engaging in the actual use of the inventions nor in any manner interfered with such use*, nor even attempted to do so. Consequently *Scott* and the other decisions of this Court relied upon by petitioners are wholly inapplicable, and petitioners' position is groundless.

Certainly there is no magic quality of the clock striking

at the final patent expiration date which discharges, relieves, or justifies the machine purchasers in refusing and evading their just contractual obligations to pay their remaining unpaid belance of the agreed royalties which constitute the fair "reward of the inventor". This is particularly true where, as here and in *Hazeltine, the* royalty payment schedule was by previous agreement extended over a period of years as a mutually convenient financing arrangement for the benefit of the machine purchasers. That is all that respondent has recovered or is seeking, namely, money judgments for the unpaid balance of the agreed royalties, at least to the extent of the agreed annual minimum royalties after such final patent expiration date. There is no proof of any resulting injury to the public interest, and obviously there is no such injury. Clearly this is not against public policy and is not unlawful.

On the contrary *public policy favors and requires freedom of contract* with reference to the agreed extended period for the royalty payments as a mutual financing convenience.

Also (2) public policy requires that farmers should not be required to make their equipment payments earlier than they can financially afford. And we respectfully submit that this Court should not hold this illegal.

As well said by this Court in the leading case of *Twin City Pipe Line Co. v. Harding Glass Co.*, 283 U.S. 353, 356, 75 L. Ed. 1112, 1116, 51 S. Ct. 476, 83 A.L.R. 1168, citing numerous cases to the same effect:

> "The general rule is that *competent persons shall have the utmost liberty of contracting* and that their agreements voluntarily and fairly made shall be held valid and enforced in the courts. . . . The meaning of the phrase 'public policy' is vague and variable; courts have not defined it and there is no fixed rule by which to determine what contracts are repugnant to it. The

principle that contracts in contravention of public policy are not enforceable should be applied with caution and only in cases plainly within the reasons on which that doctrine rests. It is only because of the dominant public interest that one who, like respondent, has had the benefit of performance by the other party, will be permitted to avoid his own promise. . . . *It may not be held invalid in the absence of a clear showing that some definite public detriment will probably result from its performance.* . . . The glass company has failed to show that the contract has any tendency to injure the public, and no reason appears why it should not be enforced according to its terms."

This Court therefore overruled the public policy defense and did not merely allow damages but affirmed the district court's *injunction* against defendant purchasing gas from plaintiff's competitors in violation of their contract.

In *Steele v. Drummond*, 275 U.S. 199, 205, 72 L. Ed. 238, 240, 48 S. Ct. 53, this Court said:

"And it is a matter of great public concern that freedom of contract be not lightly interfered with. . . . It is only in clear cases that contracts will be held void. The principle must be cautiously applied to guard against confusion and injustice. . . . *Detriment to the public interest will not be presumed where nothing sinister or improper is done or contemplated.*"

In *Baltimore and Ohio Railway Co. v. Voight*, 176 U.S. 498, 505, 44 L. Ed. 560, 564, 20 S. Ct. 385, cited with approval in both *Twin City* and *Steele*, this Court said:

"At the same time it must not be forgotten that *the right of private contract is no small part of the liberty of the citizen and that the usual and most important*

function of the courts of justice is rather that they maintain and enforce contracts than to enable parties thereto to escape from their obligation on the pretext of public policy, unless it clearly appears that they contravene public right or the public welfare. *It was well said* by Sir George Jessel M. R. in *P. & M. Registering Co. v. Sampson*, L. R. 19 Eq. 465:

"'It must not be forgotten that you are not to extend arbitrarily those rules which say that a given contract is void as being against public policy, because if there is one thing which more than another *public policy requires* it is that men of full age and competent understanding *shall have the utmost liberty of contracting*, and that their contracts, when entered into freely and voluntarily shall be held sacred, and shall be enforced by courts of justice. Therefore you have this *paramount public policy* to consider — that you are not lightly to interfere with this freedom of contract'."

In *A. C. Frost & Co. v. Coeur D'Alene Mines Corp.*, 312 U.S. 38, 44, 85 L. Ed. 500, 506, 61 S. Ct. 414, this Court quoted with approval *Twin City* and *Steele* and said:

"If it definitely appears that enforcement of a contract will not be followed by injurious results, generally, at least, what the parties have agreed to ought not to be struck down."

See also to the same effect: *Muschany v. United States*, 324 U.S. 49, 66, 89 L. Ed. 744, 756; *Allgeyer v. State of Louisiana*, 165 U.S. 578, 589, 41 L. Ed. 832, 17 S. Ct. 427.

G. ANSWER TO AMICUS CURIAE BRIEF

As the foregoing brief was about to be sent to the printer, we are now unexpectedly in receipt of a copy of brief of the United States as amicus curiae. As the executive branch of the government is now rightly engaged in

a "war on poverty", and increasing its aid in agricultural financing, it is difficult to comprehend why it would be simultaneously attempting to curtail "our basic federal policy" of freedom of contract on the part of its citizens and to require farmers to make their equipment payments *at earlier dates* than most of them can financially afford.

The contentions of amicus curiae are substantially for the most part a repetition of those asserted in petitioners' brief. We shall, however, briefly again reply to them.

1. Its first contention apparently is that a patentee may not extend its patent *monopoly by enjoining infringement* of a patent and *excluding others from using* the invention after all of the patents have expired. We have never contended otherwise. However, no such issue is involved herein. Thys has never brought a patent infringement injunction suit involving any expired patent and has never sought to extend any monopoly nor to exclude anyone from using the invention as to any expired patent.

We shall not again discuss *Scott* and other cases, as those cited are fully distinguished hereinabove.

2-3. These two contentions relate to the same point and will therefore be discussed together. Thys owned 12 picking machine patents and also 7 additional patents which were subsequently issued by the U.S. Patent Office. Here, as in *Hazeltine*, in consideration of certain royalties, including an annual minimum royalty of $500.00, Thys licensed the *right to use any or all of these existing and future patents*. Clearly this was entirely lawful. Whether or not the licensees *actually used* all, or even any of them, was wholly immaterial. In any event, petitioners and the others *had the right to use* any or all of these existing and future patented inventions as to machine improvements, additions, and accessories, and all of them were readily

available for that purpose. It is true here, as in *Hazeltine*, as stated (p. 16):

> "The royalties were payable without regard to the number of the patents which the licensee used; indeed, they accrued even if none was used."

Their attempted distinction of that case is wholly groundless. There is not a scintilla of evidence that Thys was attempting to secure the benefits of a patent monopoly after the patents had expired. On the contrary respondent was merely *following a mutually "convenient method of fixing the business value of the privileges granted by the licensing agreement."*

It will be noted that the quotation (p. 11) from the trial court's decision (R. 87) related to an entirely different defense, namely, alleged mandatory package licensing, which was correctly held by both courts below to be wholly groundless and which is not even involved in this certiorari proceeding.

Amicus curiae, not having been a party, should perhaps be pardoned for a certain lack of familiarity with the facts. (For example the Charvet as well as the Brulotte action was commenced in 1959 rather than 1960.) (Br. p. 5; R. 10). We wish particularly to repeat and emphasise that *Thys has not recovered for any year subsequent to 1956 anything in excess of the agreed annual minimum royalty of $500.00* plus 4% tax. (R. 90, 95, 97, 99-101, 104). The contention that respondent's recovery was based on the amount of *actual use* of these machines subsequent to the expiration of any of these patents is therefore clearly erroneous.

Amicus curiae rightly concedes (p. 11, 12) that if the machine had been unpatented, the parties could have validly agreed for its sale on precisely these same terms. We submit that for the reasons hereinabove stated as long as when these contracts were executed, long before any

patent expiration date, the parties voluntarily desired and mutually agreed to this extension of the payment period as a practical financing convenience for their mutual benefit, there is nothing in either federal or state law, as held by the courts below, which renders the same illegal or against public policy, or which precludes giving effect to the voluntary mutual intention of the parties. There is no proof whatever herein of any lack of voluntary "realistic bargaining". The terms were not "severe", but were primarily for the benefit of the machine purchasers in giving them a longer time in which to complete their agreed payments. There was never any monopoly of hop picking machines nor any "exaction of royalties" at any time. It is undisputed that because of the *severe competition* of stationary machines, neither Thys nor anyone else has ever attempted to manufacture or sell a single new portable hop picking machine since 1947.

On the contrary to suggest that anyone in Thys' position would not have preferred — from a selfish standpoint, disregarding the best interests of the hop farmers — to have collected, if financially practicable, not only the full purchase price, but also the full amount of the royalties, within a 5 year or 10 year period after the original sale of the machines, would be entirely unrealistic.

As hereinabove discussed, and as held in *Hazeltine*, the "tie-in" cases are not applicable, as Thys never required the use of unpatented materials with these machines. For example, *Ethyl Gasoline Corp. v. United States*, 309 U.S. 463, was a government antitrust injunction suit and is clearly distinguishable. Ethyl unlawfully controlled resale prices and marketing practices of those who wished to sell Ethyl gasoline products and suppressed competition with reference thereto. No such situation is involved herein.

As well stated by the trial court in discussing this point:

"The defendants here knew or were charged with the knowledge of the expiration dates of the patents, but

nevertheless agreed to extend the royalty payments over a longer term than most of the patents, which arrangement was as much or more for their own benefit as for the plaintiff's benefit. It seems to me that they cannot now complain of unclean hands caused by an anticipated condition brought on by operation of law. A majority of the courts so hold." (citing cases; R. 89).

Also the Washington Supreme Court correctly stated:

"In this case, when the parties signed their agreements, the instruments showed on their faces that some of the patents would expire before the end of the period during which the payment of royalties was required. It was undoubtedly understood between them that *a 17-year period was a reasonable amount of time over which to spread the payments for the use of the patent. They agreed that the value of the right to use the patents embodied in the machines was at least $500 per year, for the remaining years of the royalty period. There is no legal or equitable reason why they should not be required to perfom their agreement.*" (R. 112).

Amicus curiae states (p. 14):

"If that were all the parties had done, *we agree that the respondent would not have gone beyond the proper scope* of its patent rights. For example, if the parties had agreed (1) that a fair price for the machine was $8,500, and (2) that such amount should be paid over a 17-year period at the annual rate of $500, *there would be no problem.*"

We submit that in essence under these facts *that is what the parties have agreed and have done,* and the same does not involve any illegal misuse of patents, and is not against public policy.

4. We are surprised at amicus curiae raising another objection *not argued by petitioners and not properly involved herein*. (p. 16, 17). The agreements provide that respondent's consent shall be obtained to a resale of the machines, *but that such consent shall not be unreasonably withheld*. Actually respondent *has never refused* to consent to a resale of any machine — and petitioners have never contended otherwise. The reason for this provision is obvious, namely, so that respondent will know who is responsible for future payment of the agreed royalties. There is not a scintilla of evidence that this has ever resulted in any difficulty of resale. Moreover there is no evidence that any manufacturer has ever even considered producing or selling portable machines, in view of the serious competition of stationary machines.

5. Furthermore contrary to the suggestion of amicus curiae (p. 17), we have always contended and now definitely contend that respondent has not been guilty of patent misuse and in any event would be at least entitled to recover royalties accruing up until the final expiration date of all of the patents involved. Any ruling to the contrary would, we submit, unlawfully deprive respondent of its valid vested contractual and property rights and would be against public policy.

CONCLUSION

For the foregoing reasons the judgment of the Supreme Court of Washington is clearly right and should be affirmed or the certiorari proceeding should be dismissed.

Respectfully submitted,

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Attorneys for Respondent

IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE AND CECELIA BRULOTTE, his wife,

and

RAYMOND CHARVET AND BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY, *Respondent*.

MEMORANDUM OF PETITIONERS IN OPPOSITION TO MOTION OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) FOR LEAVE TO FILE A BRIEF AS AMICUS CURIAE

Under the provisions of Rule 42(3), Petitioners respectfully object to the motion of Well Surveys, Inc. (and Dresser Industries, Inc.) for leave to file a brief as *amicus curiae*.

The motion is based on the pendency in the United States Court of Appeals for the Tenth Circuit of

Cases Nos. 6592 to 6956. *McCullough Tool Company et al.* v. *Well Surveys, Inc., et al.*, Petitioners' reasons for withholding consent to the filing of such brief are: (1) the proposed brief advances no "facts or questions of law that have not been" or "will not adequately be presented by the parties" as required by Rule 42(3); (2) the record on which the proposed brief is based is not before this Court; (3) the motion was not filed within the time allowed by Rule 42(2); and (4) proposed *amicus curiae* seek to circumvent the refusal of the Tenth Circuit Court of Appeals to certify the misuse question in the cases before it.

1. Proposed Amicus Curiae Advance No "Facts or Questions of Law That Have Not Been" or "Will Not Adequately Be Presented by the Parties" as Required by Rule 42(3)

There are "no facts or questions of law" presented by proposed *amicus curiae* which have not been fully presented by the parties of record.

In an attempt to conform their motion to Rule 42(3), proposed *amicus curiae* inaccurately state the positions of the parties of record and misconstrue the decision of the court below.

As Reason 1 in support of the motion, it is asserted that the disposition of this case may control "not only cases where the acceptance of a royalty base including operations covered by expired patents was *coerced,*[1] but also a case . . . where . . . the acceptance by licensees" of post-expiration royalty obligations "was *voluntary*" (Motion, p. 4). It is said that the case "where the acceptance" of a post expiration royalty

[1] Unless otherwise indicated, all emphasis is supplied.

contract is "voluntary" may not be briefed by the parties. (Reason 3, Motion, p. 4)

The motion, on its face, is inconsistent with the proposed brief which it advocates. That proposed brief at page 11 admits:

> "Petitioners argue on page 26 of their brief, and elsewhere, that use of a royalty base including operations covered by an expired patent is a misuse, even if such use is *not coerced* but *voluntary*." (Proposed Brief Amicus Curiae, Reason 4, p. 11)

The same purported concern over the "coercion" issue is expressed in each of the additional "Reasons" 2 to 4, inclusive, advanced by Well Surveys and Dresser Industries.

The alleged "Reason" 2 is not a reason at all within the contemplation of Rule 42(3) but merely an argument in support of the "view" of the purported *amicus curiae*.

Reason 3 is an admission that the proposed *amicus curiae* "have not yet seen Respondent's brief in the instant case," coupled with a construction of the opinion of the Supreme Court of Washington—which proposed *amicus curiae* necessarily *did* see—and which is inconsistent with the opinion of that court. In Reason 3 it is stated that:

> ". . . It was the view of the Supreme Court of Washington that inclusion of expired patents in the royalty base, even where *mandatory*, is not a misuse provided the parties clearly intended such inclusion." (Motion, p. 4)

The opinion of the Supreme Court of Washington states:

> "In regard to the contention that the contracts are illegal because they conditioned the grant of

> the license on some patents on acceptance of a license on a larger group of patents, the complete answer is that this is simply not the fact." (R. 109)

While the foregoing statement by the court below appears inconsistent with the record, it nevertheless places the element of coercion directly in issue in the case at bar.

Indeed, Reason 4 (Motion, p. 5) is an *accurate* speculation that "Respondent may argue . . . along the same general lines" as proposed *amicus curiae.*

Respondent's brief, which the would-be *amicus curiae* admit that they "have not yet seen", presents the same argument as Well Surveys and Dresser Industries. It defends the post-expiration royalty contracts in suit specifically on the ground that "there was here *no coercion nor unlawful mandatory* package licensing" (R. Br. 35, 40, 41) (emphasis by Respondent).

The identity of the issue presented by the proposed *amicus curiae* brief and by the briefs of the parties is fully demonstrated by the fact that the *amicus* brief *cites not a single authority which is not also relied upon for the same purpose by at least one of the parties of record.*

In short, the very "coercion" issue on which Dresser Industries and Well Surveys rely in support of the motion is squarely before the Court on its merits. The proposed brief *amicus curiae* is superfluous. The motion is moot.

Moreover, the element of "coercion" is inapposite to the basic illegality inherent in any licensing arrange-

ment which includes expired patents in the royalty base.

> "It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted. . . . the patentee or manufacturer . . . [cannot] take the benefit and advantage of the patent upon the condition that at its termination the monopoly should cease, and yet when the end was reached disregard the public dedication [and] practically perpetuate indefinitely an exclusive right." *Singer Mfg. Co.* v. *June Mfg. Co.,* 163 U.S. 169, 185-186, 16 S.Ct. 1002, 41 L.Ed. 118, 124-125 (1896) *Kellogg Co.* v. *National Biscuit Co.,* 305 U.S. 111, 120, 59 S.Ct. 109, 83 L.Ed. 73, 79 (1938).

2. The Record on Which the Proposed Brief Is Based Is Not Before This Court

Page 2 of the motion states with respect to the relationship between the case at bar and the Tenth Circuit case on which the proposed *amicus* brief is predicated:

> ". . . In actuality, however, the operative facts of the two cases are very diffierent . . ."

In "Reason" 4 (Motion, p. 5), Well Surveys and Dresser Industries assert the belief that "it would be helpful to the Court . . . to have an amicus brief *not limited to the precise factual situation in the case at bar.*"

Page 3 of the motion and many sections of the proposed brief include representations of would-be *amicus curiae* concerning the content of the Tenth Circuit

record which is not before this Court. It would manifestly be unfair, both to the Court and to the parties, to receive the proposed brief in the absence of the record—admittedly reflecting the "very different" "operative facts"—on which it is based.

In point of fact, the undefined "real alternative" to post-expiration royalties, to which Well Surveys and Dresser Industries repeatedly advert (Motion, p. 4, Reasons 1 and 2), may be no practical alternative at all depending as it does on equally undefined "negotiated terms" (Motion, p. 3). In the absence of the Tenth Circuit record, the proposed *amicus curiae* brief is meaningless.

Nor can equity and good conscience countenance the advocacy in this Court by proposed *amicus curiae* of their side of the Tenth Circuit case in the absence of their adversaries.

3. The Motion Is Untimely

The motion is belated as a consequence of the deliberate acts of Well Surveys and Dresser Industries.

Rule 42(2) of this Court provides:

> "2. A brief of an *amicus curiae* in cases before the court on the merits may be filed only after order of the court or when accompanied by written consent of all parties to the case and presented within the *time allowed for the filing of the brief of the party supported.*"

Would-be *amicus curiae first* requested consent of Petitioners to the filing of a brief *amicus curiae* on July 21, 1964. That request was refused on July 25,

1964.[2] Proposed *amicus curiae* took no action until *September 16, 1964*, almost two months later. Meanwhile, the time within which the proposed brief *amicus curiae* could properly have been presented under the provisions of Rule 42(2) expired on September 4, 1964, Respondent having accepted service of Petitioners' brief on the merits on August 5, 1964.[3]

4. Proposed Amicus Curiae Seek to Subvert the Mandate of the Tenth Circuit Court of Appeals

On August 28, 1964—over a month after consent to the proposed *amicus curiae* brief was refused by Petitioners—Dresser Industries and Well Surveys applied to the Tenth Circuit Court of Appeals for a certification of the misuse question in that case to this Court for concurrent disposition with the case at bar. That application for certification was denied by the Tenth Circuit on September 17, 1964.[4] *Amicus curiae* seek by the present motion to circumvent the mandate of the very appellate court in which their case properly is pending.

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[2] A copy of the letter refusing consent is reproduced, *infra*, Appendix p. 9.

[3] A copy of the acceptance of service is reproduced, *infra*, Appendix p. 10.

[4] A copy of the letter of the Clerk of the United States Court of Appeals for the Tenth Circuit denying the certification is reproduced, *infra*, Appendix p. 11.

CONCLUSION

The motion should be denied in the interests of sound judicial administration and for failure to comply with the rules of this Court.

Respectfully submitted,

EDWARD S. IRONS
1000 Connecticut Avenue, N. W.
Washington 36, D. C.
Attorney for Petitioners

Of Counsel:

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Yakima, Washington

IRONS, BIRCH, SWINDLER & MCKIE
1000 Connecticut Avenue, N.W.
Washington 36, D. C.

APPENDIX

LAW OFFICES
IRONS, BIRCH, SWINDLER & MCKIE
ONE THOUSAND CONNECTICUT AVENUE
WASHINGTON 36, D. C.

July 25, 1964

Rufus S. Day, Jr., Esq.
McAfee, Hanning, Newcomer,
Hazlett & Wheeler
700 Terminal Tower
Cleveland 13, Ohio

Re: *Brulotte et al v. Thys Company*

Dear Mr. Day:

You have requested Brulotte *et al* to consent to the filing of a brief as *amicus curiae* in the subject case which is pending in the Supreme Court of the United States.

After due consideration I have reached the conclusion that we should not consent. It does not seem to me that your client stands in the position of a friend of the court. Rather, you are in the position of representing other parties in another pending action, the outcome of which you feel may be affected by the disposition of this case. It would be your purpose to influence the decision in favor of your client's position. The position which you would advance might well be contrary to the interests of Brulotte *et al.* Our acquiescence in the filing of a brief *amicus curiae* on behalf of your client would almost necessarily also require our acquiescence in the filing of a similar brief by your opponent. I do not think that the best interests of anyone would be served by such a proceeding.

I appreciate your courtesy in making your briefs, as well as the briefs of McCullough, available to me. The McCul-

lough briefs are returned herewith. I gratefully accept your offer to permit me to retain the copies of your briefs.

Very truly yours,

/s/ EDWARD S. IRONS
Edward S. Irons

ESI:ed
Encls.
cc: Mr. Charles C. Countryman

IN THE SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1964

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife and RAYMOND CHARVET and BLANCHE CHARVET, his wife, *Petitioners*, v. THYS COMPANY, *Respondent*.	No. 20

Acceptance of Service

Service accepted of a copy of brief for petitioners this 5th day of August, 1964.

GEORGE W. WILKINS
CHENEY & HUTCHESON
Attorneys for Respondent
By /s/ ELWOOD HUTCHESON
Elwood Hutcheson

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT
OFFICE OF THE CLERK
DENVER, COLORADO 80202

September 17, 1964

Mr. Rufus S. Day, Jr.
700 Terminal Tower
Cleveland 13, Ohio

Dear Mr. Day:

The Court has treated your letter of August 28, 1964, in cases No. 6952 to 6956, McCullough Tool Company et al. vs. Well Surveys, Inc., et al., as an application to this Court to certify to the Supreme Court of the United States the question of misuse, and has treated Mr. McDermott's letter of September 2, 1964, as an answer to your letter for certification; and an order has been entered today denying your application for certification of the misuse question.

Very truly yours,

/s/ ROBERT B. CARTWRIGHT
Robert B. Cartwright
Clerk.

RBC:avb

cc to:
Mr. Richard B. McDermott
Boesche, McDermott & Eskridge
Third Floor, Drew Building
Tulsa, Oklahoma 74103

In the Supreme Court of the United States

OCTOBER TERM, 1964.

No. 20.

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife,
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners,

v.

THYS COMPANY,
Respondent.

REPLY OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) TO MEMORANDUM OF PETITIONERS IN OPPOSITION TO THEIR MOTION FOR LEAVE TO FILE AS AMICUS CURIAE.

RUFUS S. DAY, JR.,
700 Terminal Tower,
Cleveland, Ohio 44113,

RICHARD M. DONALDSON,
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In the Supreme Court of the United States

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REPLY OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) TO MEMORANDUM OF PETITIONERS IN OPPOSITION TO THEIR MOTION FOR LEAVE TO FILE AS AMICUS CURIAE.

Petitioners argue in their Memorandum in Opposition that our Motion for Leave to File and our *amicus curiae* Brief, were untimely.

The fact is that our Motion and Brief were filed 12 days before the Brief of Respondent which our Brief generally supports.

Petitioners apparently served their Brief on August 5, 1964, but for some reason did not file it until August 17th. When we telephoned the Clerk's office to ascertain the date when Respondent's Brief was due, so that we could have our Motion and Brief on file by the same date, the Clerk's office naturally believed that Petitioners' Brief had been served about the time it was filed, and told us that Respondent's Brief was expected September 16th. We filed our Motion and Brief on September 16th, and Respondent's Brief was actually filed on September 28th.

We submit that our Motion and Brief were timely, and that in any event no one has been prejudiced by its filing date.

So far as Petitioners' other points are concerned, we are content to let our Motion and Brief speak for themselves, except that we wish to add one point. We have now seen Respondent's Brief, and think it is a good one. We believe, however, that the following points are more adequately treated in our proposed *amicus* Brief:

1. The significance of *voluntary* adoption by the parties of a broad royalty base, including some operations which are not patented, or on which the patent has expired.

2. The importance from the standpoint of accounting convenience of permitting parties to use such a royalty base, provided they do so voluntarily.

3. The basic distinction between the *Shatterproof*, *Ar-Tik* and similar cases and the instant case.

4. The point that there is no significant difference between inclusion in the royalty base of operations on which the patent has expired, and inclusion therein of operations which have never been patented—both being equally in the public domain.

We submit that our Motion should be granted and our Brief accepted for filing.

Respectfully submitted,

RUFUS S. DAY, JR.,
RICHARD M. DONALDSON,
ROBERT W. FULWIDER,
ROBERT K. SCHUMACHER,
ROBERT J. WOOLSEY,

Attorneys for Well Surveys, Inc. and Dresser Industries, Inc.

1 2

In the Supreme Court of the United States

OCTOBER TERM, 1964.

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WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife,
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v.

THYS COMPANY, *Respondent*.

BRIEF OF WELL SURVEYS, INC. (AND DRESSER INDUSTRIES, INC.) AS AMICUS CURIAE.

I.

INTEREST OF WELL SURVEYS, INC.* AS AMICUS CURIAE.

Well Surveys, Inc. ("WSI"), on behalf of which this brief is filed, is appellee and cross-appellant in the case of *McCullough Tool Company, et al. v. Wells Surveys, Inc., et al.* (Case Nos. 6952-6956) now pending in the Tenth Circuit Court of Appeals, which was argued before that court on January 10, 1964. As indicated in our motion for leave

* The assets and liabilities of Well Surveys, Inc., including all patents owned by it and its interest in the case of *McCullough Tool Company, et al., v. Well Surveys, Inc., et al.* (Case Nos. 6952-6956, now pending in the Tenth Circuit Court of Appeals), have recently been transferred and assigned to its parent company, Dresser Industries, Inc., which is also a party to these cases. For simplicity of reference, the interest of Well Surveys, Inc. and/or Dresser Industries, Inc. as represented in this Brief as Amicus Curiae will be referred to collectively as the interest of Well Surveys, Inc.

to file this brief, such case originated as a patent infringement suit brought by WSI against McCullough, in which one of the defenses asserted by McCullough was that WSI had misused its patents by including in the royalty base of certain patent licenses granted by it operations covered by an expired patent.

The parties in the Tenth Circuit case were advised by the Court of Appeals that the decision would be "deferred pending decision by the Supreme Court of the United States in the case of *Brulotte, et al. v. Thys Company, et al.*, 376 U. S. Reports, page 905"—that is, the instant case.

In this case, this Court had, a short time previously, granted a writ of certiorari limited to two questions, of which the first is representative:

> "1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public."

The above question is so broadly stated that a categorical affirmative answer might be understood to control the decision in our Tenth Circuit case. In actuality, however, the operative facts of the two cases are very different.

In the instant *Brulotte* case, the Thys Company granted *only* package licenses with a broad royalty base including operations covered by expired patents. It apparently granted about 200 of these, in identical form, and never granted or offered any other type of license. If the characterization in the petition for certiorari is correct (we have not yet seen respondent's brief) this was a "mandatory package license."

In our Tenth Circuit case, WSI owned and offered for licensing some 60 or 70 patents relating to the logging of

oil wells by radioactivity means. Many of its licenses were granted on a standard form, which gave the licensee a right to use any of WSI's patents, or any of a designated group of them, in consideration of a specified percentage royalty based on the licensee's gross receipts from radioactivity well logging operations. Under these standard licenses, the specified percentage was applied to the licensee's total gross receipts from radioactivity well logging operations, regardless of whether individual operations had ever been patented, or whether the patents on them had expired. In view of the number of these patents which the licensees used and might use, this approach provided a convenient basis for determining the royalty due for the privilege of using all of these patents. The licensee had the right to terminate the agreement after a designated period, which was generally five years.

However, at least from June 1, 1956 on, WSI offered to all licensees and prospective licensees, by individual contact and by publication, an alternative to its standard package licenses. Each was offered the opportunity to negotiate a license under any individual patent or patents on reasonable terms, and many of such licenses were in fact negotiated. Where the licensee so desired, the royalty under a special license was made payable only on operations covered by specified patents, and the royalty on each patented operation terminated when the patent expired.

The District Court made the following finding (Finding 122, Court of Appeals Record, page 98):

> "While the royalty base employed in the standard license agreements made by WSI after June 1, 1956 included or purported to include operations covered by the expired Bender patent, the extension of the royalty base to cover practice of expired patents was not coerced, after June 1, 1956, but was voluntary upon the part of the licensees, who were offered a

real alternative by WSI's offer to grant a license under any individual patent or patents upon negotiated terms."

From a legal standpoint, the District Court concluded (oral opinion, Court of Appeals Record, page 647) that *"where there is an offer or willingness upon the part of the owner of a group of patents to license one on a reasonable royalty basis * * ** then the license agreement which has in its royalty base the payment of a royalty on service performed under expired patents is not a misuse of the patent." *

As indicated in our motion for leave, WSI's interest in the instant case arises from the fact that the question on which certiorari was granted is so broadly framed that a categorical affirmative answer might be understood to control the decision in our Tenth Circuit case, *even though it is clear in our case that the use of the broad royalty base was voluntary, and not coerced.*

II.

CONTENTION OF WELL SURVEYS, INC.

In the instant case, petitioners are contending that any inclusion in the royalty base of a patent license of operations covered by an expired patent, whether coerced or voluntary, is a misuse.

We do not know what respondent's position will be, as we have not seen its brief. It was the view of the Supreme Court of Washington that inclusion of expired patents in the royalty base, even where mandatory, is not a misuse provided the parties clearly intended such inclusion.

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* Emphasis is ours throughout this brief, unless otherwise indicated.

The present brief will be devoted to showing that, *at least where a real alternative has been offered, and a royalty base including operations covered by an expired patent is voluntarily accepted by the licensee, the patentee is not guilty of misuse.*

III.

ARGUMENT.

1. There are valid business reasons for permitting parties to a patent license to employ a broad royalty base, regardless of whether particular operations included therein are unpatented, or the patents on them have expired, and there is no sound basis for proscribing this practice, at least where an alternative is offered and the broad base is adopted by the parties voluntarily.

It is a very common practice for patent licensors, particularly where a large number of patents relating to a process, or a system, or a class of products is being licensed, to offer a license under all the patents in return for a percentage royalty on the licensee's total receipts from use of the process or system, or from sale of the line of products, without considering whether particular operations, or products, are covered by one or more unexpired patents. Licenses of this type are particularly common in industries involving a high level of research and development, such as the electronics, chemical, petroleum and radio industries, but there are few major industries which do not employ them to a substantial extent.

Such licenses—often called "field licenses"—give the licensee maximum freedom to utilize the patentee's developments in the licensed field, and at the same time provide an easily administered basis for royalty computation.

Where 50 or 100—or even 15 or 20—closely related patents are licensed, it would often be most burdensome to the parties, when trying to calculate royalties or to check royalty payments, to have to ascertain exactly which, if any, of the patents were employed in each of the licensee's operations or products. This burden is avoided by permitting the parties to agree voluntarily to a royalty rate, applicable to the licensee's gross receipts or total sales, in return for which the licensee may use any of the patents which he wishes.

It is true that gross sales or receipts in most cases include some operations or products which are unpatented, or on which the patents have expired. It is also true that this Court has often stated that convenience of the parties is no justification for an illegal act. However, we see no reason why it should be regarded as contrary to law or public policy, even in such a case, for a licensor and a licensee to agree, as a matter of mutual accounting convenience, to base royalties on the licensee's total sales or total receipts, where this basis is adopted by voluntary agreement, and the licensor is willing to base the royalty on operations covered by a particular patent, and terminate it when that patent expires, if the licensee so requests.

It should, perhaps, be emphasized that if, in such a case, operations which are unpatented, or on which the patent has expired, are included in the royalty base, the royalty calculated on total receipts is not paid *for* the right to perform an unpatented operation, or *for* the use of an expired patent. It is paid for the use of the unexpired patents or the right to use them, during the term of the license, and the broad royalty base is employed by the parties merely as a matter of accounting convenience.

2. The decision of this Court in Automatic Radio Co. v. Hazeltine is direct authority sustaining the voluntary use of a broad royalty base, regardless of the inclusion of operations which are unpatented, or on which the patents have expired.

The only case we have found in which this Court has considered the question of propriety of charging a royalty on total receipts, regardless of whether particular operations might have been unpatented, or the patent might have expired, is *Automatic Radio Co. v. Hazeltine,* 339 U. S. 827 (1950). In that case, Hazeltine offered package licenses under all its present and future patents for a flat percentage of the licensee's total sales, whether or not any of the patents were used. The license agreement included 570 patents and 200 applications. The *Hazeltine* record shows that a considerable number of these patents had expired before 1942, when the license agreement was executed; that at least half of them would expire before the end of the agreement's ten-year term (Transcript of Hazeltine Record in U. S. Supreme Court, pages 20 to 38); that some of the patents had admittedly been held invalid by federal courts before the suit on the license agreement was brought (Transcript, page 86); and that these facts were pleaded by Automatic in its answer (Transcript, page 48).

However, as stated by this Court at page 831, there was no evidence "that Hazeltine had refused to grant a license under any one or more of its patents to anyone who refused to take a license under all."

Automatic's contention was stated by this Court as follows, at page 832:

> "But petitioner urges that this case 'is identical in principle' with the 'Tie-in' cases. It is contended that the licensing provision requiring royalty payments of

a percentage of the sales of the licensee's products constitutes a misuse of patents because it ties in a payment on unpatented goods * * *."

Rejecting this contention, this Court stated at page 833:

"The licensing agreement in issue was characterized by the District Court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties. Payment for the privilege is required regardless of use of the patents. The royalty provision of the licensing agreement was sustained by the District Court and the Court of Appeals on the theory that it was a convenient mode of operation designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents. 77 F. Supp. at 496. The Court of Appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege. 176 F. 2d at 804. Numerous District Courts which have had occasion to pass on the question have reached the same result on similar grounds, and we are of like opinion.

* * * * *

"*We cannot say that payment of royalties according to an agreed percentage of the licensee's sales is unreasonable.* Sound business judgment could indicate that such payment represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement. We are not unmindful that convenience cannot justify an extension of the monopoly of the patent. See, e.g., *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661, 666; *B. B. Chemical Co. v. Ellis*, 314 U. S. 495, 498. But as we have already indicated, there is in this

royalty provision no inherent extension of the monopoly of the patent. Petitioner cannot complain because it must pay royalties whether it uses Hazeltine patents or not. What it acquired by the agreement into which it entered was the privilege to use any or all of the patents and developments as it desired to use them. If it chooses to use none of them, it has nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continuous research. *We hold that in licensing the use of patents to one engaged in a related enterprise, it is not per se a misuse of patents to measure the consideration by a percentage of the licensee's sales.*"

3. Even if Automatic Radio Co. v. Hazeltine is regarded as involving a royalty base including only operati. which have never been patented, and not operations on which the patent had expired, the decision of this Court in Sears Roebuck & Co. v. Stiffel Company shows that there is no distinction on this ground.

Petitioners, on page 33 of their brief, try to distinguish the *Hazeltine* decision on the ground that it involved a royalty base including unpatented articles, but not articles on which the patent had expired. Petitioners go so far as to state that it is "evident from the face of the opinion that the court would have held the agreement illegal, had its attention been directed" to any inclusion of articles on which the patent had expired.

We believe the petitioners are wrong on both counts.

It is true that the majority opinion does not mention the fact that many of the sales on which royalty was required to be paid were sales of goods covered by patents which had expired, or which had been held invalid. It states the facts and contention more broadly—that many of the goods on which royalty was required to be paid

were "unpatented," and that it was Automatic's contention that this was a misuse. However, the case cannot be distinguished on this account.

As we have seen, the record in the *Hazeltine* case shows that many of the patents expired before execution of the license, that at least half of them expired during its term, that some had been held invalid, and that Automatic urged these facts in its defense. Furthermore, the dissenting justices referred, at page 840, to the public interest in "exposing invalid or expired patents," and the cases cited by the majority as authority for this Court's holding included the case of *H-P-M Development Corporation v. Watson-Stillman Co.,* 71 F. Supp. 906 (D. N. J., 1947) which expressly held that there was no legal objection to including in the royalty base articles covered by expired patents.

Finally, and by far the most important, there is no difference in principle, so far as payment of royalties is concerned, among articles covered by expired patents, articles covered by invalid patents, and articles which were never patented, *because all are equally in the public domain.*

Any possible doubt on this point was laid to rest by this Court in its unanimous decision in *Sears Roebuck & Co. v. Stiffel,* 376 U. S. 225, 84 S. Ct. 784 (1964). This Court there stated, at 84 S. Ct. 788, 789:

> "* * * when the patent expires the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public.
>
> * * * * *
>
> "* * * *An unpatentable article, like an article on which the patent has expired is in the public do-*

main, and may be made and sold by whoever chooses to do so."

We submit that, in the light of both principle and the above decision, *Automatic Radio Co. v. Hazeltine* stands squarely for the proposition that a licensor and a licensee may voluntarily base royalty payments on the licensee's total receipts, even though some operations of the licensee may be unpatented, or the patent on some of them may have expired.

4. There are no decided cases holding or implying that, where the licensor offers or is willing to license on an individual patent basis, it is a misuse for the parties voluntarily to agree to base royalties on gross receipts, regardless of whether some of the included operations are unpatented or the patents have expired.

Petitioners argue on page 26 of their brief, and elsewhere, that use of a royalty base including operations covered by an expired patent is a misuse, even if such use is not coerced but voluntary. However, the many decisions cited in their brief are all cases where the patentee sought to *prohibit* the other party to a contract from practicing the invention of an expired patent, or to *compel* a licensee to include expired patents in his royalty base. None of them were cases where the patentee offered or was willing to license on an individual patent basis, but the broad royalty base was chosen voluntarily by the parties. We shall discuss the principal cases cited by petitioner.

(a) Scott Paper Co. v. Marcalus Co., 326 U. S. 249 (1945).

In the *Scott* case, this Court merely held that, when a patentee assigned his patent and was sued by his assignee for infringement, the fact that he had assigned the patent

could not estop him from defending on the ground that the device he was manufacturing was a device shown in an expired patent and therefore within the public domain.

Scott was seeking absolutely to prohibit Marcalus from practicing the disclosure of an expired patent. Had it succeeded, this would have deprived him of all opportunity to practice the disclosure, and the public of its right to benefit by his practice.

These effects do not flow from the voluntary agreement of a licensor and a licensee to base royalties on the licensee's gross receipts, without attempting to exclude operations which are unpatented or on which the patent has expired. If the potential licensee wants to perform such operations without any payment, he can do so without taking any license of any kind. If he wants to take a license under other patents of the licensor, and still perform such operations without any payment, he can request a royalty base which excludes such operations. If, as a matter of accounting convenience, he voluntarily agrees to make payment for his license under unexpired patents in the form of a royalty on his total sales, without separating out any articles uncovered by patents or on which the patent has expired, neither he nor the public is deprived of any right.

(b) Prestole Corp. v. Tinnerman Products, Inc.,
271 F. 2d 146 (6th Cir., 1959).

This case merely holds that is was misuse for patentees, in a patent pooling agreement, to forbid each other to use the licensed patents in connection with devices covered by certain expired patents. The court stated on page 155:

> "We have in mind that after the expiration of a patent, the invention originally protected thereby becomes, for all purposes, an unpatented device."

(c) American Securit Co. v. Shatterproof Glass Corp., 268 F. 2d 769 (3rd Cir., 1959):

In this case, as shown on pages 775 and 776 of the court's opinion, the patentee had consistently refused to fix a royalty on less than all of its patents, and the principal holding of the court was that this refusal to license wanted patents unless the licensee would also take a license on unwanted patents was a misuse *per se*.

However, petitioners quote on page 17 of their brief the following further paragraph of the court's opinion:

> "We conclude also, and quite apart from all of the foregoing, that paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit. Indeed the expiration clause of the contract works an 'aggravating hardship' on licensees as Judge Leahy stated, in that it demands the renunciation of all patents, whether wanted or unwanted under the license."

So far as the issue of a royalty on an expired patent is concerned, the clause in the Securit agreement is indistinguishable from the expiration clause in the Hazeltine license (Transcript, page 16). While the Hazeltine license extended for only ten years, the record showed that at least half the patents would expire before that period, so that it equally involved the payment of royalties on a broad royalty base including expired patents. There is, however, one critical fact that distinguishes the *Hazeltine* case from the *Shatterproof* case. While, in the *Shatterproof* case, no other license was available, and the licensee,

if he did not want the whole package, could get no license at all, in the *Hazeltine* case this Court regarded the package license as truly voluntary. In *Shatterproof*, the later payment of royalties on expired patents was coerced at the inception of the license. This was not the case in *Hazeltine*.

That this critical fact was in the mind of the Third Circuit Court when it wrote the paragraph above quoted, is clearly shown by the last sentence of the quotation, in which the court mentions as an additional hardship the fact that, if the licensee tried to get out of the arrangement by cancelling the license, it would mean "the renunciation of all patents, whether wanted or unwanted under the license." This manifestly refers to the licensor's unwillingness to license on any other basis than the package including expired patents.

(d) Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F. 2d 496 (3rd Cir., 1962).

This is a more recent Third Circuit decision to the same effect as the *Shatterproof* decision. The patentee, as a condition of granting a license under a single patent, expressly required the licensee to continue paying royalty for a period extending beyond the expiration of the patent. There is no indication that any alternative of any kind was available to the licensee.

(e) Technograph v. Bendix Aviation Corporation, 218 F. Supp. 1 (D. Md., 1963).

In this case, Judge Watkins applied the Third Circuit's decision to invalidate an express agreement "to pay royalty under this particular patent for a period of five (5) years after its expiration." It is obvious from the opinion that the requirement was mandatory, and that there was no alternative.

(f) Scapa Dryer, Inc. v. Abney Mills,
269 F. 2d 6 (5th Cir., 1959).

This decision has little relevancy to the present case. It merely holds that, in view of the *Scott Paper* case, an ambiguous agreement should not be construed to prohibiting one of the parties from importing a patented machine into the United States after the patent expired, as such construction would render the agreement invalid.

5. **Recent District Court decisions have distinguished the above cases and have held, in accordance with the Hazeltine case, that where the licensor offers or is willing to license on an individual patent basis it is no misuse for the parties voluntarily to agree to base royalties on gross receipts, even though the patents on some of the included operations have expired.**

In every decided case in which the use by a licensor and a licensee of a royalty base of total gross receipts, without excluding operations on which the patent has expired, has been clearly voluntary, the Court has held that there was no misuse.

We have already quoted from the decision of Judge Savage in *Well Surveys, Inc. v. McCullough Tool Company,* 199 F. Supp. 374 (N. D. Okla., 1961), which distinguished the *Shatterproof* case, and relied squarely on the decision of this Court in the *Hazeltine* case.

To the same effect—and also expressly distinguishing the *Shatterproof* case—is *Eversharp, Inc. v. Fisher Pen Co.,* 204 F. Supp. 649 (N. D. Ill., Ed., 1961), in which the court concluded at page 675:

> "A license which, by its terms, continues until expiration of all of the patents covered by such license, does not constitute a patent misuse, in the absence of

a showing of coercion on the part of the patent owner that the licensee accede to such a provision."

Another case so holding is *Carter Products v. Colgate-Palmolive Co.*, 164 F. Supp. 503 (D. Md., 1958). There, just as in the *Shatterproof* case, the royalty was to continue undiminished until the expiration of the latest of the licensed patents. However, the court distinguished the *Shatterproof* decision and held that there was no misuse stating at page 525:

> "In the case at bar, there is no evidence that plaintiffs would issue a license under the basic Spitzer patent *only** on condition of an acceptance by the licensee of a provision including any other patent."

Petitioners argue on page 31 of their brief, that the above District Court decisions are erroneous because the courts have "failed to perceive the distinction" between block booking "in which coercion by the patent owner may be a necessary element of misuse" and inclusion in the royalty base of operations covered by expired patents, which petitioners contend is a misuse even where wholly voluntary.

It is our position that the alleged distinction is a distinction without a difference. None of the decisions cited by petitioners requires a holding that, in a case where the patent owner offers, or is willing, to license on an individual patent basis, it is a misuse for the parties, for the sake of accounting convenience, to agree voluntarily to base royalties on total gross receipts, without excluding operations which are unpatented, or on which the patents have expired. Any such holding would be contrary not only to the above District Court decisions, but also to the express holding of this Court in the *Hazeltine* case. As we have indicated, where such a royalty base is used volun-

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* Emphasis is the court's.

tarily, the royalty calculated on total receipts is not paid *for* the right to perform an unpatented operation, or *for* the use of an expired patent—it is paid for the right to use the unexpired patents during the term of the license, and the broad royalty base is employed merely as a convenient way for measuring the value of the patents actually licensed.

It is only when package licensing, or the use of the broad royalty base, is made mandatory by the patent owner, that the licensee or the public is deprived of any rights, or that there is a patent misuse.

IV.

CONCLUSION.

We express no opinion as to the validity of the view taken in this case by the Supreme Court of Washington. However, if this Court concludes that the use by the parties of the broad royalty base in the instant case was truly voluntary, we believe, in the light of what we have stated in this brief, that the decision should be affirmed. And, even if this Court should decide to reverse it, we believe it should do so in terms which do not foreclose a case in which it is clear that the patent owner offered or was willing to license on an individual patent basis, but the broad royalty base was voluntarily chosen by the parties for accounting convenience.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

REPLY BRIEF FOR PETITIONERS

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THYS COMPANY, *Respondent*

REPLY BRIEF FOR PETITIONERS

I. SUMMARY OF ARGUMENT

Respondent is "the owner and holder of 19 patents on hop picking machines and improvements thereof" (R. Br. 2), at least 12 of which are licensed to Petitioners by the contracts in suit. In consideration for these statutory patent monopolies, Respondent *contracted* with the people of the United States to *dedicate* the inventions to the public when the patents expire.

The issue in this case is whether Respondent, by *subsequent, private contracts* requiring the post-expiration payment of royalties, may compromise its *prior* and *primary bargain* with the *public.*

To allow recovery on these post-expiration royalty agreements "would be at war with virtually every policy consideration in this area of the law."[1] Without deviation, this Court has construed both the Constitution and the applicable statutes to *guarantee* the *unqualified* paramount *public* right in the subject matter of expired patents. *No private contract* can compromise that fundamental guarantee.

The contracts in suit, which attempt to extend the patent monopolies to the *very* unpatented subject matter dedicated to the public by their expiration, violate the public policy of both the patent[2] and the antitrust laws.[3]

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[1] *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 84 S. Ct. 1526, 12 L. Ed. 2d 457, 482 (1964).

[2] Constitution, Art. 1, Sec. 8; 35 U.S.C. § 154; *Pennock* v. *Dialogue*, 2 Pet. 1, 7 L. Ed. 327 (1829); *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917); *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938); *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945); *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964); and *Compco Corp.* v. *Day-Brite Lighting*, 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964).

[3] *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944); *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948); and *United States* v. *Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

These agreements are illegal *per se.* The collateral facts and circumstances advanced by Respondent and amicus curiae Well Surveys, Inc. in an attempt to legitimatize post-expiration royalties on the ground of business expediency are totally inapposite since

> ". . . convenience cannot justify an extension of the monopoly of the patent. See, e.g., Mercoid Corp. v. Mid-Continent Invest. Co., 320 U.S. 661, 666, 88 L. ed. 376, 381, 64 S. Ct. 268; B. B. Chemical Co. v. Ellis, 314 U.S. 495, 498, 86 L. ed. 367, 370, 62 S. Ct. 406."[4]

II. THE POST-EXPIRATION ROYALTY CONTRACTS VIOLATE THE PUBLIC POLICY OF THE PATENT LAWS

The court below held:

> ". . . that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, . . ." (R. 111)

On the strength of that holding it entered judgment enforcing the post-expiration royalty contracts in suit.

The ruling of the lower court clashes head-on with the fundamental principles on which the patent system is premised.

From the very beginning, it has been recognized that unqualified public *dedication* of the fully disclosed invention upon expiration of a patent is the *quid pro*

[4] *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827, 834, 70 S. Ct. 894, 94 L. Ed. 1312 (1950). Cf. *United States* v. *Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

quo tendered by the patentee in exchange for the grant of the monopoly.[5]

This Court repeatedly has emphasized that *a patentee may not compromise his bargain with the public* by qualifying *in any way* the ultimate *public* dedication on which the statutory grant expressly is conditioned. It is *for this reason* that the right to use the subject matter of an expired patent is "no longer sub-

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[5] To insure that the dedication shall be meaningful, the patent statutes, beginning with the first Patent Act of 1790, have included provisions conditioning the patent grant on full disclosure of the invention in the patent specification.

In *Universal Oil Products Co.* v. *Globe Oil & Refining Co.*, 322 U.S. 471, 484, 64 S. Ct. 1110, 88 L. Ed. 1599 (1944), this Court enunciated the principles underlying such statutes as follows:

> "As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who refrains from keeping his invention a trade secret. *But the quid pro quo is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired;* and the same precision of disclosure is likewise essential to warn the industry concerned of the precise scope of the monopoly asserted. Béné v. Jeantet, 129 US 683, 685, 686, 32 L ed 803, 804, 9 S Ct 428; General Electric Co. v. Wabash Appliance Corp., 304 US 364, 368, 82 L ed 1402, 1405, 58 S Ct 899."

To the same effect are the decisions in *Brooks* v. *Fiske*, 15 How. 212, 14 L. Ed. 665 (1853), and *Permutit Co.* v. *Graver Corp.*, 284 U.S. 52, 52 S. Ct. 53, 76 L. Ed. 163 (1931).

35 U.S.C. § 112, the present-day embodiment of such statutes, provides:

> "The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

Unless otherwise stated, all emphasis in this brief is supplied.

ject to private barter, sale, or waiver" on any basis, "voluntary" or otherwise. *Scott Paper Co. v. Marcalus Mfg. Co.,* 326 U.S. 249, 257, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

In its first patent decision in 1829, this Court recognized that the prohibition against extension of the monopoly of an expired patent in derogation of the public right in the dedicated invention is constitutionally mandated. In *Pennock* v. *Dialogue,* 2 Pet. 1, 7 L. Ed. 327 (1829), the Court held:

> ". . . The Constitution of the United States has declared that Congress shall have power 'to promote the progress of science and useful arts by securing for *limited times,* to authors and inventors, the exclusive right to their respective writings and discoveries.' *It contemplates, therefore, that this exclusive right shall exist but for a limited period,* and that the period shall be subject to the discretion of Congress . . . ."
>
> * * * * * *
>
> ". . . While one great object was, by holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was 'to promote the progress of science and useful arts;' and *this could be done best by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible. . . .*" (2 Pet. 1, 16-19, 7 L. Ed. 327).[6]

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[6] The constitutional requirement that patents be granted for *limited times* has consistently been recognized and enforced by this Court. See in addition to the cases cited *supra,* notes 1 and 2, page 2, *Kendall* v. *Windsor,* 21 How. 322, 16 L. Ed. 165 (1859); *United States* v. *American Bell Telephone Co.,* 167 U.S. 224, 17 S. Ct. 809, 42 L. Ed. 144 (1897); *Woodbridge* v. *United States,* 263 U.S. 50, 68 L. Ed. 159 (1923); *Special Equipment Co.* v. *Coe,* 324 U.S. 370, 65 S. Ct. 741, 89 L. Ed. 1006 (1945); *Great A & P Tea Co.* v. *Supermarket Equipment Corp.,* 340 U.S. 147, 71 S. Ct. 127, 95 L. Ed. 162 (1950).

The constitutional mandate that patents shall be granted for "limited times" was applied early to foreclose the extension of an expired patent monopoly by a second patent for the same invention—a circumstance later characterized as "double patenting." As early as 1894, this Court thought it a "well settled rule" that in the case of two patents covering the same invention

> "... [T]he later must be declared void ... *two valid patents for the same invention cannot be granted either to the same or to a different party.* ..." *Miller* v. *Eagle Mfg. Co.*, 151 U.S. 186, 197, 14 S. Ct. 310, 38 L. Ed. 121 (1894).

After reviewing its prior decisions establishing this "well settled rule",[7] the opinion in *Miller* states:

> "In *Odiorne* v. *Amesbury Nail Factory*, 2 Mason, 28, the reason for the rule since established by the above cited cases was stated to be that the power to create a monopoly is exhausted by the first patent; and for the further reason that a new and later patent for the same invention would operate to extend or prolong the monopoly beyond the period allowed by law." (151 U.S. 186, 198)

In the *1819* Massachusetts decision in *Odiorne*, cited in *Miller* as definitive of the reason for the rule against "double patenting," the court held:

> "... It cannot be, that a patentee can have in use at the same time two valid patents for the same invention; and if he can successively take out at

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[7] *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 18 L. Ed. 76 (1866); *James* v. *Campbell*, 104 U.S. 356, 26 L. Ed. 786 (1882); *Mosler Safe & Lock Co.* v. *Mosler, Bahmann & Co.*, 127 U.S. 354, 8 S. Ct. 1148, 32 L. Ed. 182 (1888); *McCreary* v. *Pennsylvania Canal Co.*, 141 U.S. 459, 12 S. Ct. 40, 35 L. Ed. 817 (1891); *Underwood* v. *Gerber*, 149 U.S. 224, 13 S. Ct. 854, 37 L. Ed. 710 (1893).

> different times new patents for the same invention, he may perpetuate his exclusive right during a century, whereas the patent act confines this right to fourteen years from the date of the first patent. *If this proceeding could obtain countenance, it would completely destroy the whole consideration derived by the public for the grant of the patent, viz. the right to use the invention at the expiration of the term specified in the original grant. . . .*" 18 Fed. Cas. 578, 579 (No. 10, 430) (C.C. D. Mass. 1819).[8]

In 1896 in *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118, effort was made to perpetuate an expired patent monopoly by asserting a proprietary right in the generic name "Singer" by which the sewing machines subject to the patent had become known to the public. This Court, in ruling against the patentee, again emphasized the paramount public right to the unrestricted free use of the once-patented invention and *the disability of the patentee to compromise his dedication of it.* The Court said at 185-86:

> "*It is self-evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted.* It follows, as a matter of course, that on the termination of the patent there passes to the public the right to make the machine in the form in which it was constructed during the patent. . . . It equally follows from the cessation of the monopoly and the falling of the patented device into the domain of things public, that along with

[8] For the same reason reissue patents expire on the same date as the original grant. 35 U.S.C. § 251.

the public ownership of the device there must also necessarily pass to the public the generic designation of the thing which has arisen during the monopoly, in consequence of the designation having been acquiesced in by the owner, either tacitly, by accepting the benefits of the monopoly, or expressly, by his having so connected the name with the machine as to lend countenance to the resulting dedication. To say otherwise would be to hold that, although the public had acquired the device covered by the patent, yet the owner of the patent or the manufacturer of the patented thing had retained the designated name which was essentially necessary to vest the public with the *full* enjoyment of that which had become theirs by the disappearance of the monopoly. *In other words, that the patentee or manufacturer could take the benefit and advantage of the patent upon the condition that at its termination the monopoly should cease, and yet when the end was reached disregard the public dedication and practically perpetuate indefinitely an exclusive right.*"

Forty-two years later, in 1938, *Singer* was followed, reaffirmed and quoted verbatim on substantially the same issue in *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938).

Meanwhile, in 1917, the first misuse decision was rendered in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917). That case involved a notice attached to a patented motion picture projector. The notice provided that the patented projector might be used "only with moving picture films containing the invention of reissued patent No. 12,192. . . ." Noting that the reissue patent had expired, this Court held:

"Such a restriction is invalid because such a film is obviously not any part of the invention of

the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired. . . ." (243 U.S. 502, 518).

In 1945 the same fundamental principles were applied in *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47, to hold that the assignor of a patent is not estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art expired patent. Citing the prior decisions in *Kellogg* and *Singer, supra*, this Court in *Scott Paper Co.* said:

"Revised Statutes, §§ 4886, 4884 as amended, 35 USCA §§ 31, 40, 9 FCA title 35, §§ 31, 40, provide for the grant of a patent for a *term of seventeen years* to any person who has invented a 'new and useful art, machine, manufacture, or composition of matter.' The grant is conditioned upon the filing of an application in the patent office describing the invention and the manner of making and using it. Rev Stat § 4888 as amended, 35 USCA § 33, 9 FCA title 35, § 33. . . ."

"The enactment of these provisions is the mode by which Congress has chosen to carry into effect the policy sanctioned by the Constitution, Article I, § 8, cl. 8 'To promote the Progress of Science and useful Arts, by securing for *limited Times* to . . . Inventors the exclusive Right to their . . . Discoveries.'" (326 U.S. 249, 254-255).[9]

From these premises, the Court concluded:

". . . [T]hat the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of

[9] See note 5, supra, page 4, and the cases cited.

the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone *by contract* or *any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all.* The rights in the invention are then no longer subject to private barter, sale, or waiver." (326 U.S. 249, 256-57).

Scott Paper Co. reached the only possible decision consistent with the public policy of the patent laws and the prior decisions of this Court. That decision rests squarely on the constitutional and statutory obligation of a patentee to publicly dedicate the invention, without reservation, at the expiration of the patent term. Mr. Chief Justice Stone, speaking for the majority in *Scott Paper Co.,* stated:

> "The judgment is affirmed for the reason that we find that the application of the doctrine of estoppel so as to foreclose the assignor of a patent from asserting the right to make use of the prior art invention of an expired patent, which anticipates that of the assigned patent, is inconsistent with the patent laws which dedicate to public use the invention of an expired patent." (326 U.S. 249, 257-58).

Scott Paper Co. is not an isolated case subject to criticism for defining a unique rule of law as Respondent implies (R. Br. 36). As this Court so aptly observed in *Katzinger Co.* v. *Chicago Metallic Mfg. Co.,* 329 U.S. 394, 400-01, 67 S. Ct. 416, 91 L. Ed. 374 (1947):

> "In Scott Paper Co. v. Marcalus Mfg. Co., 326 US 249, 90 L ed 47, 66 S Ct 101, . . . the Court was but stating an often expressed policy that 'It is the public interest which is dominant in the patent system,' Mercoid Corp. v. Mid-Continent

Invest. Co., 320 US 661, 665, 88 L ed 376, 380, 64 S Ct 268. . . .'"[10]

This same basic principle of public dedication of the invention of an expired patent was again enunciated in the 1964 decisions in *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), and *Compco Corp.* v. *Day-Brite Lighting,* 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964). These cases hold that the paramount *public* right in the subject matter of an expired patent forecloses extension of the defunct monopolies under the guise of the state law of unfair competition. Again it was emphasized that it is the "free exercise" of the right to use the subject matter of the expired monopoly in "which the consuming public is deeply interested"—and which is indeed guaranteed by the federal supremacy of the patent laws.

Sears and *Compco* enunciate the primary public right to *all* subject matter in the public domain, as guaranteed by the federal patent laws. The doctrine of these decisions forecloses with equal firmness col-

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[10] The decision in *Scott Paper Co.* was but a specific application of the general rule that neither private contract nor implied estoppel can override congressional policy. In *Katzinger,* this same principle was applied to invalidate a provision of a royalty contract and thus permit a challenge to the validity of the licensed patents which were said to justify a price-fixing arrangement otherwise in violation of congressional policy as expressed in the antitrust laws. The Court said at 402:

> ". . . Finally, Metallic's *specific contract* not to challenge the validity of Katzinger's patent can *no more override congressional policy than can an implied estoppel.* See Scott Paper Co. v. Marcalus Mfg. Co. supra (326 US at 257, 90 L ed 52, 66 S Ct 101), and cases cited."

See also the discussion of the antitrust violation inherent in the contracts in suit, Sec. III, *infra,* page 14.

lection of post-expiration royalties for the alleged right to use *any* "unpatentable article"—including, of course, the *very* subject matter of a publicly dedicated invention.

While time payment arrangements for articles of commerce in the public domain may be unobjectionable, a *patent owner may not extend the statutory monopoly* by *any* form of post-expiration *royalty* contracts.[11]

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[11] Thus the "Brief for the United States As Amicus Curiae" observes that "if the parties had agreed (1) that a fair price *for the machine* was $8,500, and (2) that such amount should be paid over a 17-year period at an annual rate of $500, there would have been no problem." (Br. U.S. Am. Cur. p. 14). The same brief, however, accurately points out that the contracts in suit involve no such time payment plan "for the machine." Rather the arrangements were such that *royalties*, including the $500.00 minimum for all of the patents packaged in the license which the contracts provide that Petitioners "must secure," continued at an undiminished rate long after all of the needed patents had expired. As the brief for the United States aptly states:

> ". . . By thus being required to pay Thys *royalties* based on their use of the patented machine after the patents had expired, the petitioners were being required to pay for the right to practice an invention that had passed into the public domain. . . . [T]he patent laws require that, upon the expiration of the term of the patent, the invention must be dedicated to the public." (Br. U.S. Am. Cur. 15).

Compare the argument at page 10 of the brief of Well Surveys, Inc. as *amicus curiae* that "there is no difference in principle, so far as payment of royalties is concerned, among articles covered by expired patents, articles covered by invalid patents, and articles which were never patented, *because all are equally in the public domain.*" (Emphasis by *amicus curiae*) *Amicus curiae* is correct that the principle here controlling guarantees to the public the unfettered use of all "unpatentable" subject matter. Indeed, it is that very principle which "*equally*" condemns all private contracts to pay patent royalties for the right to use any "unpatented" article.

The public policy of the antitrust laws speaks with at least equal authority to foreclose contractual extensions of the expired patents to the very subject matter of the dedicated inventions. See Sec. III, *infra*, page 14.

Nor may post-expiration royalty arrangements be condoned if "voluntary" as Respondent and *amicus curiae,* Well Surveys, Inc., insist.[12] The objectionable extension of the expired monopoly occurs *equally* regardless of whether the post-expiration royalty arrangement by which it is accomplished is "voluntary" or "coerced".

The element of coercion is totally immaterial to the conflict with the public policy of the patent laws inherent in any license which includes in the "royalty base" "operations covered by an expired patent." With respect to the subject matter of his expired patent, the patentee is *not a part of* the general public, *but is apart from the general public.* After expiration of his monopoly the patentee is powerless to do anything—whether by voluntary agreement or otherwise—which would compromise the public right to the unrestricted free use *"by others"* of the dedicated invention.[13]

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[12] Brief of Well Surveys, Inc. as *amicus curiae*, pages 5, 7, 11, 12, 16, 17. Respondent advances the same argument (R. Br. 11).

[13] The contention of *amicus curiae*, Well Surveys, Inc. that its post-expiration royalty agreements do not deprive the public "of any rights" (Well Surveys, Inc. *Am. Cur.*, Br. 12, 17) is in the teeth of the ruling of this Court in *Scott Paper Co., supra,* 326 U.S. 249, 250, 66 S. Ct. 101, 90 L. Ed. 47 (1945), that it is the aim of the patent laws that the consuming public "shall receive the benefits of the *unrestricted* exploitation *by others*" of the disclosure of expired patents.

It has been suggested, with apparent error in view of *Sears* and *Compco, supra,* that the rule in *Scott Paper Co.* is inapplicable to overcome an estoppel to challenge validity on the basis of prior art other than an expired patent.

Such a distinction was expressed in *Hall Laboratories* v. *National Aluminate Corp.*, 224 F. 2d 303 (3d Cir. 1955), a suit for the collection of royalties under a license agreement made in settlement of earlier infringement litigation between the same parties. The licensee sought to avoid the royalties by challenging the validity of the patent under the authority of *Scott Paper Co.* on the basis

These fundamental principles *invalidate on their face* the post-expiration royalty contracts by which Respondent and *amicus curiae,* Wells Survey, Inc., seek to disregard the public dedication and perpetuate their expired patent monopolies.

III. THE POST-EXPIRATION ROYALTY CONTRACTS VIOLATE THE PUBLIC POLICY OF THE ANTITRUST LAWS

Respondent's *original* sales of portable machines commenced in 1941 and continued "during World War II when hand pickers were not available" (R. Br. 3) until 1947 when "the competition of stationary machines" became "terrific" (R. Br. 2). During this time period, Respondent was the *sole* domestic source of hop-picking machines of any type.[14]

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of prior art relied on, but not adjudicated, in the infringement case. The court held the licensee estopped to contest validity on the teaching of a prior published *book,* stating at 307:

> "The crucial extension which Hall seeks to make is that the doctrine of the Scott Paper case is not restricted to situations in which invalidity of the patent in issue is premised upon a prior expired patent. In brief, Hall asserts that the laws which dedicate to public use the invention of an expired patent also dedicate the disclosures of prior publications and foreign patents for which timely patent application has not been made. . . ."
>
> "It does not appear, however, that the Supreme Court has as yet relaxed the estoppel doctrine to this extent."

In a later portion of the same opinion, remand to the trial court was granted for consideration of the effect on the royalty claim of the expiration of three of the patents relied on in the prior infringement suit. In this regard, the court observed at 308:

> ". . . It is clear that under the Scott Paper case these patents would have had to have been considered had they expired at the time of the filing of the complaint, for that decision presupposes that the parties cannot by any form of agreement contravene the statutory policy which terminates the patent monopoly after the stated interval."

[14] Respondent was admittedly the sole domestic manufacturer of portable hop-picking machines (R. 49). "Hand pickers were not available" (R. Br. 3). Stationary machines did not become competitive until 1947 (R. Br. 2).

Respondent exploited this monopoly position to forestall anticipated competition from machines to which its patents would not extend or in which they might not be used.[15] In carefully-drawn, separate form agreements, "bare title" to the machines "was sold . . . and the right to use" them together with Respondent's patents "was licensed to the purchaser" (R. 108-09). The original purchasers were each obligated "to pay . . . royalties for the use of [the] . . . machine for a period which was to end 17 years after the date the machine was first sold . . ." (R. 107). The royalties were to be paid at the rate of \$5.00 "per two hundred pounds of hops harvested with the machines and in any event a minimum royalty of \$500.00 per year was to be paid for the use of each machine.'"[16] (R. 107).

Each contract expressly provided that the royalties should continue at an undiminished rate "irrespective of the date of expiration of any of the Letters Patent" licensed.[17] As the court below held, the contracts contained an "absolute obligation to pay royalties . . . regardless of whether hops are harvested" for the full 17-year term. The purchasers had no right to cancel. (R. 114).

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[15] At least some of the licensed patents were also useful in the stationary machines (R. 39, 42).

[16] The royalties were, at some unspecified later time, reduced to \$3.33⅓ per two hundred pounds of hops harvested without, however, reduction of the minimum royalty.

[17] See Par. 7 of the contracts in suit. (R. 74; R. 78)

These circumstances belie Respondent's arguments that the post-expiration royalty contracts reflect Respondent's "good Samaritan" (R. Br. 11; 2, 3, 9) concern for hop farmers which finds record support solely in the self-serving answers of Respondent's president to the leading questions of its counsel (R. 65, 66). Obviously, these form agreements, as originally drawn at the inception of Respondent's activities in the early 1940's, were insisted upon quite without regard to the welfare of the machine users.

The anticompetitive features of the original two-party agreements were perpetuated by a provision that the original purchasers "shall not assign this agreement nor any interest therein and shall not permit said machine(s) to become subject to any lien or encumbrance . . . without prior consent" of Respondent (R. 72-80). Purchasers of used machines were required to accept the same terms and conditions imposed by the original two-party agreements. The result was a plurality of three-party or "transfer" agreements consummated between Respondent, the prior owner and the "new owners" of *each* of the machines. The original "two-party" form agreements were "virtually the same as" Petitioner's "three-party" or "transfer" contracts here in suit. (R. 55; R. 44-45).[18]

There were "something in excess of 200 such contracts or perhaps more because the machines . . . changed hands" (R. 50). By these form agreements Respondent has effectively restrained commerce in portable hop picking machines since their initial manufacture in the early 1940's.[19]

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[18] The court below said:

> "It is further agreed that the form contracts used . . . were uniform with other contracts used whether they were three-party contracts or two-party contracts". (R. 83)

[19] This anticompetitive result is in part attributable to Respondent's attempt by the contracts in suit to circumvent the fundamental rule:

> ". . . that sale of a patented article by the patentee or under his authority carries with it an 'implied license to use.' Adams v. Burke, 17 Wall 453, 456, 21 L ed 700, 703; United States v. Univis Lens Co. 316 US 241, 249, 250-251, 86 L ed 1408, 1417, 1418, 62 S Ct 1088." *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 484, 84 S. Ct. 1526, 12 L. Ed. 2d 457 (1964)

The court below distinguished "numerous authorities . . . which hold that the sale of a patented article by one holding the patent

Respondent, of course, knew when all of these contracts were negotiated that "only seven of the twelve . . . patents listed by number . . . were incorporated into the . . . machines" (R. 95). Moreover, as the trial court pointed out, the licensed patents which "were not needed in the use of the machines . . . were mere surplusage . . . and there is no evidence . . . that any special value was placed upon any of the patents which were not incorporated in the machines." (R. 87).[20] Respondent also knew that all of the patents whose inventions were incorporated into the machines would expire during the contract term.[21] It was for

. . . puts the patented article beyond the reach of the monopoly conferred by the patent" (R. 108) on the basis of an erroneous construction of the record. It found that "title . . . was sold by the manufacturer" (Lindemann Bros.) and "the right to use . . . was licensed . . . by the patent holder" (Respondent) (R. 108-109). In point of fact, Respondent's president testified that machines were built for him by Lindemann Bros. under contract (R. 39) and that Respondent "deemed" itself "to be selling the title to the machine" as well as licensing the patents (R. 42).

Respondent's only attempted justification for this arrangement aside from alleged convenience is that it was designed "to avoid any possible danger of future claims of patent infringement on the part of anyone" (R. Br. 5). The record shows that the only patents which might present infringement problems to the purchasers of Respondent's machines were owned by Respondent itself (R. 43, 44). Neither Petitioners nor any other machine purchaser needed protection from any "future claims of patent infringement" lodged by *Respondent* in view of the "implied license to use" consequent from the "fundamental" rule emphasized in *Aro II, supra.*

[20] Respondent's president testified that ". . . it is true that we have given them licenses to more patents than actually we believe that they need as being used in the portable machines" (R. 64).

[21] The trial court found as a fact that "all" of the used patents "expired on or before 1957" (R. 95)—at least one year before the termination of *any* contract consummated by Respondent. Moreover, as it turned out, some of the patents were invalidated well prior to their expiration. See Note 9, page 8, Petitioners' opening brief.

this reason that Respondent was careful to provide in its contracts that the royalty rate should continue *undiminished* for the entire term, "irrespective of the date of expiration of any patent."

The anticompetitive consequences of these agreements culminated in the present litigation by which Respondent primarily seeks to recover the minimum royalties due under its agreements. Indeed, "the Charvets did not use their machine after 1952" (R. 108). These facts which Respondent wishes "particularly to repeat and emphasize" (R. Br. 47) show conclusively that the contracts in suit restrain competition by extending the monopolies of the expired, invalidated and surplus patents to admittedly obsolete machines.

This Court, by an undeviating line of precedent, has made it clear that any attempt to bring unpatented goods within the protection of a patent violates the antitrust laws. After summarizing such decisions, this Court in *United States* v. *Loew's Inc., supra,* 371 U.S. 38, 46, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), stated the rule *applicable in antitrust cases* as follows:

> ". . . These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles."

Moreover, ". . . the method by which the monopoly is sought to be extended is immaterial. United States v. Univis Lens Co., supra (316 US, pp. 251, 252, 86 L ed 1418, 1419, 62 S Ct 1088). . . ." *Mercoid Corp.* v. *Mid-Continent Invest. Co., supra,* 320 U.S. 661, 666, 64 S. Ct. 268, 88 L. Ed. 376 (1944).

The fact that Respondent successfully represented in "both courts below" that "there was here *no coercion nor unlawful mandatory* package licensing" (R. Br. 35—emphasis by Respondent) is, therefore, quite irrelevant. The illegal extension of the statutory monopolies to unpatented articles by the post-expiration royalty contracts here in issue *is in no way dependent upon such factors.*

The antitrust violation *in this case* is a legal consequence of the fact that upon expiration of a patent, the statutory monopoly "ceases to exist." *Singer Mfg. Co.* v. *June Mfg. Co., supra,* 163 U S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Kellogg Co.* v. *National Biscuit Co., supra,* 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73 (1938).[22]

No private party "by contract or any other form of private arrangement" can resurrect that monopoly in derogation of the paramount public interest in the dedicated subject matter of the expired patents. *Singer Mfg. Co.* v. *June Mfg. Co., supra,* 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896); *Kellogg Co.* v. *National Biscuit Co., supra,* 305 U.S. 111, 59 S. Ct. 109,

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[22] Compare the statement of the Court in *Katzinger* v. *Chicago Metallic Mfg. Co.,* 329 U.S. 394, 401-02, 67 S. Ct. 416, 91 L. Ed. 374 (1947),

> ". Nor does the fact, if it be a fact, that Metallic itself suggested the price-fixing provision, bar Metallic's challenge to the patent's validity. For the contract was still illegal, whoever suggested it, so that there is no less reason for leaving the way open to challenge the patent as a service to the public interest than if Katzinger had suggested price-fixing."

In the present case because the patent monopoly has ceased to exist and the parties are powerless to further extend it, the contracts are illegal *per se.* Therefore as in Katzinger, it is immaterial who suggested the contracts or whether it is "voluntary" or "coerced."

83 L. Ed. 73 (1938); *Scott Paper Co. v. Marcalus Mfg. Co., supra,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

The patent clause of the Constitution has been subverted and the public imposed upon by the more than 200 post-expiration royalty arrangements of which Petitioners' contracts are typical.

These agreements, in express derogation of Respondent's commitment to publicly dedicate the subject matter of its patents upon expiration, are unreasonable *per se.*

The antitrust violation implicit in these agreements is aggravated because *only* the inventions of the *expired* patents were in fact used in the Petitioners' machines. Particularly in these circumstances, the post-expiration royalties imposed by these contracts cannot be justified under the guise of consideration for the right to use the unexpired "surplus" patents as Respondent now belatedly seems to suggest (R. Br. 5, 6, 8, 9).[23]

This *nunc pro tunc* attempt to redistribute the royalty base from the "needed" to the "surplus" patents, as the former expired or were invalidated, runs afoul of the fundamental principles repeatedly emphasized by this Court that each patent must stand on its own footing in the market place.

In *United States v. Paramount Pictures, Inc., supra,* 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260

[23] Indeed, such a contention conflicts with the express finding of the court below that the parties agreed "that the value of the right to use the *patents embodied in the machines* was at least $500 per year, for the remaining years of the royalty period." (R. 112)

(1948), reaffirmed verbatim in *United States* v. *Loew's, Inc., supra,* 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), this Court said, at 158, 334 U.S.:

> " . . . The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. In Fox Film Corp. v. Doyal, 286 U.S. 123, 127, 76 L ed 1010, 1014, 52 S Ct 546, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, 'the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, the result is to add to the monopoly of the copyright' in violation of the principle of the patent cases involving tying clauses."

Since ". . . the method by which the monopoly is sought to be extended is immaterial. . . ." *Mercoid Corp.* v. *Mid-Continent Invest. Co., supra,* these prin-

ciples apply equally to foreclose extension of the statutory monopolies by the post-expiration contracts in suit.[24]

The "unexpired," "surplus" patents on which "no special value" was placed necessarily formed *no* material part of the consideration for the royalty agreed upon when the contracts here in issue were consummated in 1948 and 1951.[25]

Respondent's belated attempt now to justify, on the basis of these "surplus" patents of "no special value," the continuance of an undiminished royalty rate after expiration of the "needed" patents compels the conclusion that the former "surplus" patents have indeed "borrowed quality" from the latter "needed" patents.

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[24] Respondent (R. Br. 35) is incorrect in its suggestion that Petitioners improperly raise the "mandatory" package licensing issue, to which the third question on the certiorari petition was directed. *Paramount* and *Loew's* are cited by Petitioners as enunciating the fundamental principles which foreclose any extension of any of the monopolies by package licensing. In this case the extension arises by reason of the post-expiration royalty provisions of the contracts and quite apart from any element of coercion.

[25] It is questionable whether any of the patents was the *real* inducement to the hop farmers to accept either the original contracts or the "transfer" agreements. Rather, it appears that all of the patents "borrowed" appeal from the machines which the hop farmers could obtain from no source other than Respondent. The hop farmers had no practical choice but to accept the license agreement on which the "right to use" the machines was expressly conditioned. The opinion of the trial court so recognizes as follows:

> ". . . The plaintiff was merely licensing the right to *use a machine* and threw in all of the patents it had, regardless of whether they were being used in the machine at the present time or not.
>
> ". . . [T]he defendants received just what they bargained for, namely, the title to and the *right to use* a certain hop-picking *machine*." (R. 87)

By such reasoning, the patents which were of "no special value" at the inception of the agreements are ascribed equal value with the "needed" patents which expired during the license term.

So construed, the agreements in suit tend "to equalize rather than differentiate the reward for the individual" patents. Each of the licensed patents would stand "not on its own footing but in whole or in part on the appeal which another" may have, in derogation of the rule enunciated in *Loew's, supra,* and *Paramount, supra.*

Respondent's contention that an undiminished royalty is justified on the basis of its "unexpired" patents parallels the arguments advanced by Well Surveys as *amicus curiae.* As the *amicus curiae* brief recognizes (p. 5), it has become conventional to offer "package" licenses under a plurality of patents at a fixed royalty rate for a term substantially longer than the life of the basic patents which are the primary "appeal" to the licensee. The royalty rate usually is fixed as a percentage of the licensee's sales in a defined "field." Payment of the fixed royalty throughout the license term and long after the basic patents expire is "justified" by inclusion in the package of some form of "consideration" which may exist in perpetuity. Thus, such "package" "field" licenses normally include as a part of the recited consideration for the royalty payment not only issued patents, but also pending and even prospectively pending patent applications, alleged trademark rights and alleged "know-how."

It is urged that the continuing undiminished royalty payments pursuant to such "package" "field" licenses

"is not paid *for* the right to perform an unpatented operation, or *for* the use of an expired patent. It is paid for the use of the unexpired patents or the right to use them, during the term of the license, and the broad royalty base is employed . . . as a matter of accounting convenience."[26]

But the royalty continues at an undiminished rate "*during the term of the license*"—including the portion thereof allocable to all of the patents which expire *during the same term.* Illegal post-expiration extension of the expired monopolies is inescapable.

The anticompetitive consequences of the expired patent monopoly extension inherent in such agreements was recognized in *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313 (N.D. Ohio 1949), *modified on other grounds*, 341 U.S. 593, 71 S. Ct. 971, 95 L. Ed. 1199 (1951):

> "We are, here, confronted with a situation wherein a patentee, upon the expiration of its patent monopoly, seeks to justify the perpetuation of the favored position it enjoyed by virtue of the patent through the ingenious theory of furnishing know-how. If lawful restraints and monopolies could be predicated on the ownership of know-how they could last ad infinitum. This Court cannot subscribe to such unharnessed privilege."

The same principles apply here to foreclose the perpetuation of the monopolies of expired patents under the guise of consideration in the form of pending applications. In *United States v. National Lead Co.*, 63 F. Supp. 513, 524 (S.D. N.Y. 1945), *aff'd*, 332 U.S. 310,

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[26] Brief of Well Surveys as *amicus curiae*, pages 6, 17.

67 S.Ct. 1634, 91 L.Ed. 2077 (1947), the Court aptly observed that such agreements extend

> ". . . . [T]o patents not yet issued and to inventions not yet imagined. They applied to commerce beyond the scope of any patents. They extended to a time beyond the duration of any then-existing patent. *Ethyl Gasoline Corp.* v. *United States*, 1940, 309 U.S. 436, 456, 60 S. Ct. 618, 84 L. Ed. 852. They embraced acknowledgment of patent validity with respect to patents not yet issued, nor applied for, and concerning inventions not yet conceived."

Moreover, the contracts in suit, like the agreements in the *Well Surveys* case, are not mere package licenses. These agreements are package licenses plus a plurality of other restrictions, including an obligation to pay post-expiration royalties whereby the public is foreclosed from dealing with each monopoly on the basis of its individual merit.[27]

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[27] The illegality of the combination of a package license coupled with some other restriction upon the freedom of the licensee to deal with the individual monopolies included in the package has long been recognized. In *Houdry Process Corp.* v. *Sinclair Refining Co.*, 121 F. Supp. 320 (E.D. Pa. 1954), an action to recover patent royalties, the defendant counterclaimed for violation of the antitrust laws. In denying plaintiff's motion to dismiss the counterclaim, the court, at page 321, stated:

> "In support of the first issue, plaintiff points out that patent pooling arrangement alone, Standard Oil Co. (Indiana) v. United States, 1931, 283 U.S. 163, 51 S.Ct. 421, 75 L.Ed. 926; Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 1947, 329 U.S. 637, 67 S.Ct. 610, 91 L.Ed. 563; Cutter Laboratories v. Lyophile-Cryochem Corp., 9 Cir. 1949, 179 F. 2d 80, or the package method of licensing by itself, United States v. Paramount Pictures, 1948, 334 U.S. 131, 159, 68 S.Ct. 915, 92 L.Ed. 1260, are not per se illegal. *It admits that* pooling plus 'something else', United States v. Line Material Co., 1948,

It was, of course, for these reasons that Respondent and the court below both recognized that post-expiration royalties *must* be legally justified if the contracts in suit are to be enforced.

IV. RESPONDENT'S CONTENTIONS ARE SELF-DEFEATING

In an effort to obscure the inherent illegality of the contracts in suit, Respondent advances a plurality of collateral self-defeating arguments. These contentions, like the attempted justification of the agreements as "voluntary," conflict directly with the law as enunciated by this Court.

A. Respondent insists that by the post-expiration royalty contracts in suit it has not "restricted the use or operation of these machines" and "was not 'withholding from the public' the right to use any expired patents as in *Scott,* and did not 'recapture any part of the former patent monopoly'" (R. Br. 36, 42). To reach this anomalous conclusion, Respondent states that in *Scott Paper Co., supra,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), this Court's guarantee to the public of the free use of the disclosures of an expired patent did not mean "free from a financial standpoint" and was not "referring to royalties" (R. Br. 36, 42). Such an interpretation is at odds not only with the holding in *Scott Paper Co., supra,* but

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333 U.S. 287, 68 S.Ct. 550, 92 L.Ed. 701; United States v. United States Gypsum Co., 1948, 333 U.S. 364, 68 S.Ct. 525, 92 L.Ed. 746, *or package licensing plus some other restriction,* Automatic Radio Mfg. Co. v. Hazletine Research, Inc., 1950, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312; United States v. General Electric Co., D.C.N.J. 1949, 82 F. Supp. 753, 859, *are illegal.*"

more importantly with the fundamental principle of dedication on which the decision is premised.[28]

Every court specifically passing on the point, with the exception of the court below,[29] has recognized the obvious fact that a patentee does indeed "recapture a part of the expired monopoly" by the exaction of post-expiration royalties.

In *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496, 510 (3d Cir. 1962), the Court of Appeals for the Third Circuit expressly held:

> "After the expiration of Patent No. 2080971 on May 18, 1954, the grant of patent monopoly was spent. *An attempt to extend that monopoly by the exaction of royalties thereafter was un-*

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[28] Compare the analogous attempt by *amicus curiae* Well Surveys, Inc. to distinguish *Scott Paper Co.* on the ground that "Scott was seeking absolutely to prohibit Marcalus from practicing the disclosure of an expired patent."

Amicus curiae Well Surveys, Inc. is plainly wrong in the construction of *Technograph Printed Circuits* v. *Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963). (Well Surveys Am. Cur. Br. 14) In the *Technograph* case at least the first *post-expiration royalty provision* was as the licensor Technograph insisted and the court recognized, clearly *voluntary*.

Amicus curiae is equally in error in its construction of *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3d Cir. 1959) (Well Surveys Am. Cur. Br. 14) in which the court was careful to point out that its finding that post-expiration provisions are illegal was "quite apart" from any issue of coercion.

Carter Products v. *Colgate-Palmolive Co.*, 164 F. Supp. 503 (D. Md. 1958) (Well Surveys Am. Cur. Br. 16) is inapposite. The issue of post-expiration royalties was not raised by the parties nor considered by the court.

[29] And the Nebraska court which adopted and applied the reasoning of the court below to different post-expiration royalty contracts in *McLeod* v. *Crawford*, 176 Neb. 513, 126 N. W. 2d 663 (1964).

enforceable. Such action clearly appears to be interdicted by Scott Paper Co. v. Marcalus Co., supra, and American Securit Co. v. Shatterproof Glass Corp., supra."

To the same effect is the opinion of the District Court for the District of Maryland in *Technograph Printed Circuits* v. *Bendix Aviation Corp.,* 218 F. Supp. 1, 48 (D. Md. 1963), *aff'd per curiam,* 327 F. 2d 497 (4th Cir. 1964):

> "*This express requirement that royalty be paid* on a patent for five years after its expiration seems to be *a clear violation of established principles that the monopoly of a patent cannot be continued, even by agreement, beyond its expiration date.*"

The fallacy of Respondent's contention is pointedly demonstrated by the finding of the court below that

> ". . . There was no reward to the patent owner other than the royalties payable under the contracts." (R. 109)

Obviously, to Respondent, who received no other "reward", the right to collect royalties was by all odds the most important "part" of the monopolies of the licensed patents. With respect to the expired and invalidated patents, it is indeed this most important "part" of the monopoly which Respondent seeks to "recapture."

B. *Automatic Radio Mfg. Co.* v. *Hazeltine Research, supra,* 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950), is of no help to Respondent. That decision rests squarely on the determination that in the royalty

arrangement there in issue, *as it was presented to the Court,* there was

> ". . . no restraint of competition beyond the legitimate grant of the patent. . . ." (339 U.S. 827, 833)
>
> ". . . no inherent extension of the monopoly of the patent. . . ." (339 U.S. 827, 834)
>
> ". . . no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy. . . ." (339 U.S. 827, 836)

It is indeed difficult to believe that the Court, had it intended to overrule its recent decision in *Scott Paper Co., supra,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), which reaffirmed the fundamental principle of public dedication on which the patent system rests, would not have said so in so many words. Obviously no such result was intended.

The *fact* is that the issue of post-expiration royalty payments was *not* presented to the Court and was not decided by it. Respondent cannot bootstrap *Automatic Radio* into precedent for a proposition which it *did* not decide—and on that basis feasibly contend that the decision compromises the unqualified public right—guaranteed by the Constitution and enforced by every *apposite* decision of this Court—to the *free* use, by the patentee *and others,* of the dedicated subject matter of an expired patent.

Nor did *Automatic Radio, supra,* exonerate post-expiration royalties on the ground of business convenience. Rather, the Court expressly held:

> ". . . We are not unmindful that convenience cannot justify an extension of the monopoly of the

patent. See, e.g., Mercoid Corp. v. Mid-Continent Invest. Co., 320 U.S. 661, 666, 88 L. ed. 376, 381, 64 S. Ct. 268; B. B. Chemical Co. v. Ellis, 314 U.S. 495, 498, 86 L. ed. 367, 370, 62 S. Ct. 406 . . . ."

C. Respondent urges as the "key solution of this entire case" an allegedly paramount public policy favoring "freedom of contract." Respondent's contention is that this "dominant" policy preserves the validity of the contracts in suit in their entirety (R. Br. 42-45) or at least estops Petitioners from challenging their legality (R. Br. 12-13). As a second line of defense it is insisted that neither patent misuse (R. Br. 7, 30-32) nor antitrust violation (R. Br. 32-36) is available to Petitioners as a defense to "an action on a license contract to recover royalties." None of these contentions has merit.

Respondent overlooks the fundamental and controlling fact that in all private arrangements involving patents, the dominant contract is the prior "bargain" between the patentee and the people. The good faith of that prior public bargain forecloses compromise by private contract of the dedication on which the initial grant of the patent is conditioned. This indeed is the express teaching of *Scott Paper Co.* v. *Marcalus Mfg. Co., supra*, 326 U.S. 249, 256-57, 66 S. Ct. 101, 90 L. Ed. 47 (1945), in which the Court said:

> ". . . [T]hat the patent laws . . . do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly. . . ."

None of Respondent's cases relating *generally* to "freedom of contract" involved agreements concern-

ing patents (R. Br. 42-45).[30] None of such cases is apposite here.

These same considerations are dispositive of the "estoppel" argument advanced by Respondent (R. Br. 6, 12-13). This identical contention was expressly rejected in *Scott Paper Co., supra,* 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945). That decision made entirely clear the supremacy of the estoppel operative *in favor of the public* and against a patent owner who has "accepted the benefits" of a patent monopoly, over any *private* estoppel arising out of the law of *private* contract which might compromise the public dedication of the once-patented invention. In disposing of this question in *Scott Paper Co.,* the Chief Justice stated:

> ". . . It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against respondent, his assignor, the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions. . . ." (326 U.S. 249, 257)

D. Respondent argues that the misuse doctrine is a "specific application of the unclean hands principle and is therefore applicable only in equity actions." It is urged that for this reason misuse is no defense "to a law action of this nature merely to recover . . . on a written royalty contract." (R. Br. 7, 30-32).

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[30] *Twin City Pipe Line Co.* v. *Harding Glass Co.,* 283 U.S. 353, 51 S.Ct. 476, 75 L.Ed. 1112 (1931); *Steele* v. *Drummond,* 275 U.S. 199, 48 S.Ct. 53, 72 L.Ed. 238 (1927); *Baltimore & Ohio Southwestern Railway Co.* v. *Voight,* 176 U.S. 498, 20 S.Ct. 385, 44 L.Ed. 560 (1900); *A. C. Frost & Co.* v. *Coeur D'Alene Mines Corp.,* 312 U.S. 38, 61 S.Ct. 414, 85 L.Ed. 500 (1941); *Muschany* v. *United States,* 324 U.S. 49, 65 S. Ct. 442, 89 L.Ed. 744 (1945); *Allgeyer* v. *Louisiana,* 165 U.S. 578, 17 S.Ct. 427, 41 L.Ed. 832 (1897).

In the first place, this contention is inconsistent with Respondent's allegation in *both* complaints that it had "no plain, speedy or adequate remedy at law" and that "an accounting is necessary" (R. 5—Brulotte complaint; R. 14—Charvet complaint). The trial court, at the behest of Respondent, concluded as a matter of law that "the plaintiff has not come into court herein with unclean hands" (R. 96). The court below concluded, *inter alia*, that "there is no legal or equitable reason why" Petitioners "should not be required to perform their agreement" (R. 112).

Moreover, Respondent's argument that misuse is no defense to an action at law misconceives the "public interest which is dominant in the patent system."

The misuse doctrine is broadly based on the proposition that a patent which has been used in violation of the public policy of the patent laws cannot, *by any means*, be made an implement for exacting tribute from the public.

Not one of the cases cited by Respondent[31] stands for the proposition that royalties may be collected in

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[31] *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942); *Ekins* v. *Auto Arc-Weld Mfg. Co.*, 150 O. 2d 300, 175 N.E. 2d 221 (1955); *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240, 54 S.Ct. 146, 78 L.Ed. 293 (1933); *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.*, 324 U.S. 806, 65 S.Ct. 993, 89 L.Ed. 1381 (1945); *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944); *Koolvent Metal Awning Corp.* v. *Bottom*, 205 F. 2d 209 (8th Cir. 1953); *Marvel Specialty Co.* v. *Bell Hosiery Mills, Inc.*, 216 F. Supp. 824 (W.D.N.C. 1963); *Ford* v. *Buffalo Eagle Colliery Co.*, 122 F. 2d 555 (4th Cir. 1941); *Harvey* v. *Levine*, 204 F. Supp. 947 (E.D.Ohio 1962); *I.C.E. Corp.* v. *Armco Steel Corp.*, 201 F. Supp. 411 (S.D.N.Y. 1961); *Revlon, Inc.* v. *Regal Pharmacy, Inc.*, 29 F. R. D. 169 (E.D.Mich. 1961). (R. Br. 31-32)

an action on a contract which is the very implement by which the misuse is accomplished as in the case at bar.

Indeed, the apposite precedent holds expressly to the contrary. As this Court observed in *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661, 667, 64 S. Ct. 268, 88 L. Ed. 376 (1944), "the patent . . . [may not] be expanded by contract." Private business may not function "as its own Patent Office" and "impose its own law upon its licensees. It . . . [may not] obtain by contract what letters patent alone may grant." [32]

The law, of course, does not permit a patentee to accomplish by indirection, through enforcement of a royalty contract, what he cannot accomplish directly in an infringement action. *Scott Paper Co., supra*, 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945). In infringement cases the interest of the public is protected against compromise of the policy of the patent laws by staying the hand of the chancellor through application of the equitable principle of unclean hands. The same public interest is protected for the same rea-

[32] Compare the *Mercoid* mandate against private business functioning "as its own Patent Office" with the analogous ruling in *Sears, supra*, 376 U.S. 225, 231, 232, 84 S.Ct. 784, 11 L.Ed. 2d 661 (1964) that

> ". . . To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 to 17 years' protection to genuine inventions, see 35 USC §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated."

son by refusing royalty recoveries on the basis of illegal licensing agreements. In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 63 S.Ct. 172, 87 L.Ed. 165 (1942), reaffirmed in *Katzinger, supra,* 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947), and *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 67 S.Ct. 421, 91 L.Ed. 380 (1947), both of which relied on *Scott Paper, supra,* 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945), this Court expressly refused to enforce royalty contracts tainted with antitrust violation as are the post-expiration royalty contracts here in issue.

E. Respondent cites *Kelly* v. *Kosuga*, 358 U.S. 516, 79 S.Ct. 429, 3 L.Ed. 2d 475 (1959) for the proposition that the illegality of the contracts in suit under the Sherman Act is no defense to Respondent's action to collect post-expiration royalties.

Kelly involved a private contract. It did not involve an attempt to enforce a patent after its expiration. In *Kelly* the antitrust defense to the contract action was denied on the ground that the general policy insuring the good faith of private contracts outweighed the benefit to the public which would be consequent from denying all relief to the plaintiff. The decision particularly rested on the finding that the illegal portion of the contract there in suit was severable and constituted "an intelligible economic transaction in itself" (358 U.S. 521).

Quite different factors are controlling in cases involving *patent* licenses. In such cases the *dominant* agreement between the patentee and the public dedicates the patented subject matter when the monopoly expires. In such cases the "overriding general pol-

icy", to paraphrase *Kelly,* is that of "preventing the patentee from compromising the public interest by perpetuating the monopoly of his expired patent when he purports to be dedicating it". The paramount public interest in the integrity of the *patent* contract, as compared with the general policy of guaranteeing the good faith of private arrangements, was expressly recognized in *Scott Paper Co.* v. *Marcalus Mfg. Co., supra,* 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945), in the following unequivocal language:

> ". . . The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power. The patent laws preclude us from saying that the patent assignment, which they authorize, operates to estop the assignor from asserting that which the patent laws prescribe, namely, that the invention of an expired patent is dedicated to the public. . . . " (326 U.S. 249, 257)[33]

Moreover, *Kelly* expressly held that even in private contract actions *not* involving patents, the defense of antitrust violation is indeed available where enforcement of the agreement "would be to make the courts

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[33] This principle was specifically enforced in *Katzinger, supra,* 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947), to invalidate a provision of a royalty contract in suit which foreclosed the licensee from challenging the validity of the licensed patents which were said to justify a price-fixing arrangement. See note 22, *supra,* page 19.

Indeed, *Automatic Radio Mfg. Co.* v. *Hazeltine Research, supra,* 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312 (1950), on which Respondent so strongly relies, clearly recognizes that recovery on a royalty contract would be foreclosed by a proper showing of misuse or antitrust violation.

a party to the carrying out of one of the very restraints forbidden by the Sherman Act." (358 U.S. 516, 520)[34]

That rule precisely applies to this case. Enforcement of the post-expiration royalty contracts in suit would "make the courts a party" not only "to the carrying out of one of the very restraints forbidden by the Sherman Act," but also to a violation of the public policy of the patent laws. These agreements are condemned *in terms* by Section 1 of the Sherman Act which provides that:

> " . . . every contract . . . in restraint of trade . . . is declared to be illegal. . . . " (15 U.S.C. § 1).

As this Court held in *United States* v. *Loew's, Inc., supra,* 371 U.S. 38, 83 S.Ct. 97, 9 L.Ed. 2d 11 (1962):

> " . . . contractual obligations cannot . . . supersede statutory imperatives. . . . " (371 U.S. 38, 51).

There is no basis for "severability" with respect to any of the patents licensed by the contracts in suit. Paragraph 6 of the contracts in suit expressly provides that the license granted is "indivisible". (R. 74, 78). Petitioners' obligation to pay royalties with respect to both the "needed" *and* the "surplus" patents for the full term of the agreements "constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. See *Hazelton* v. *Sheckells,*

[34] Compare the analogous rule which renders a patent which has been used in violation of the public policy of the patent laws unenforceable in an infringement action.

202 U.S. 71, 78, 50 L.ed. 939, 941, 26 S.Ct. 567, 6 Ann. Cas. 217." *Katzinger* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, 401, 67 S.Ct. 416, 91 L.Ed. 374 (1947).

Any enforcement of the contracts in suit would conflict squarely with the principles of the misuse doctrine which foreclose enforcement of a misused patent until it be shown "that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated. . . ." *Morton Salt Co.* v. *Suppiger Corp.*, 314 U.S. 488, 493, 62 S.Ct. 402, 86 L.Ed. 363 (1942). Moreover, even after "purging", recovery cannot be had for acts or infringement which occurred during the misuse and prior to the purge. Far from abandoning "the improper practice", Respondent is seeking to enforce the very license agreements by which the misuse of all of its licensed patents is implemented.

F. Respondent asks for "only prospective application" of a decision invalidating the agreements in suit (R. Br. 11). This plea is based on the erroneous contention that when the agreements in suit were consummated in 1948 and 1951, "such contracts were valid" (R. Br. 6). "All of the cases relied upon by petitioners were decided long afterwards. . . ." (R. Br. 10, 11, 12).

Respondent proceeds on a false premise. Dedication of the invention of an expired patent has been held fundamental to the patent system since its inception. *Pennock* v. *Dialogue, supra,* 2 Pet. 1, 7 L. Ed. 327 (1829). These same principles were reaffirmed in *Singer Mfg. Co.* v. *June Mfg. Co., supra,* 163 U.S. 169, 16 S.Ct. 1002, 41 L.Ed. 118 (1896) and again in 1938 in *Kellogg Co.* v. *National Biscuit Co.,* 305 U.S.

111, 59 S.Ct. 109, 83 L.Ed. 73 (1938). *Scott Paper Co. v. Marcalus Mfg. Co., supra,* 326 U.S. 249, 66 S.Ct. 101, 90 L.Ed. 47 (1945) and *Katzinger v. Chicago Metallic Mfg. Co., supra,* 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed. 374 (1947) were both decided *prior* to the consummation of either contract in suit. Respondent saw fit to ignore this controlling precedent and extend its patent monopolies by post-expiration royalty agreements to insure against effective competition from other machines.

CONCLUSION

The post-expiration royalty contracts in suit are illegal and unenforceable. The decision below should be reversed.

Respectfully submitted,

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Supreme Court of the United States

October Term, [illegible]

No. [illegible]

Walter C. [illegible] and [illegible], his wife
and
[illegible] Chapman and [illegible] Chapman, his wife,
Petitioners,

v.

[illegible] Title Company,
Respondent.

MOTION FOR REHEARING AND
CLARIFICATION OF OPINION
AND
BRIEF OF PETITIONERS IN SUPPORT OF
MOTION FOR REHEARING AND
CLARIFICATION OF OPINION

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE AND CECELIA BRULOTTE, HIS WIFE
AND
RAYMOND CHARVET AND BLANCHE CHARVET, HIS WIFE,
Petitioners,

v.

THYS COMPANY,
Respondent.

MOTION FOR REHEARING AND CLARIFICATION OF OPINION

Now come Petitioners and respectfully move the Court to grant a rehearing and to clarify the majority opinion rendered November 16, 1964 in the manner and for the reasons stated in the accompanying brief.

Certificate

The instant motion and the brief in support thereof are believed to be well founded and are presented in good faith and not for delay.

Respectfully submitted,

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In The

Supreme Court of the United States

October Term, 1964

No. 20

Walter C. Brulotte and Cecelia Brulotte, his wife
and
Raymond Charvet and Blanche Charvet, his wife,
Petitioners,

v.

Thys Company,
Respondent.

BRIEF OF PETITIONERS IN SUPPORT OF MOTION FOR REHEARING AND CLARIFICATION OF OPINION

I. The Clarification Requested

At page 4 of its opinion, the majority flatly held the licensing agreements in suit to be unlawful. The opinion states:

> "In light of those considerations, we conclude that the use by a patentee of royalty agreements that project beyond the expiration date of the patent is unlawful *per se*."

The conclusion of the opinion states without qualification that the decision of the court below is "*Reversed*."

Notwithstanding these unqualified holdings, Respondent contends that the decision below was only partially reversed. Respondent contends that it is entitled to collect royalties *at the full rate* until the last patent allegedly used in Petitioners' machines expired on August 13, 1957. Respondent's contention is based on that portion of the opinion which states:

> "We conclude that the judgment below must be reversed *insofar as* it allows royalties to be collected which accrued after the *last* of the patents incorporated into the machines had expired. [Op. p. 2] [Emphasis added.]
>
> * * * * * *
>
> ". . . We share the views of the Court of Appeals in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496, 510, that after expiration of the *last* of the patents incorporated in the machines 'the grant of patent monopoly was spent' and that an attempt to project it into another term by continuation of the licensing agreement is unenforceable." (Op. p. 5) (Emphasis added.)

This petition should be granted for the reasons hereinafter stated.

1. The opinion is subject to inconsistent constructions on the important questions concerning misuse, which it purports to decide.

2. Construed as Respondent insists, the opinion would constitute a *reversal* of the fundamental rule which denies a patentee the emoluments of patent ownership until the consequences of misuse have been dissipated. This rule was emphasized in *U. S. Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 1 L. Ed. 2d 465, 77 S. Ct. 490 (1957) in the following language:

> ". . . It is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents

to recover any of their emoluments accruing during the period of misuse or thereafter until the effects of such misuse have been dissipated, or 'purged' as the conventional saying goes. Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 315 U.S. 788, 62 S. Ct. 402, 86 L. Ed. 363; B. B. Chemical Co. v. Ellis, 314 U.S. 495, 62 S. Ct. 406, 86 L. Ed. 367; Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394, 67 S. Ct. 416, 91 L. Ed. 374; MacGregor v. Westinghouse Electric & Mfg. Co., 329 U.S. 402, 67 S. Ct. 421, 91 L. Ed. 380; Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U.S. 680, 64 S. Ct. 278, 88 L. Ed. 396. The rule is an extension of the equitable doctrine of 'unclean hands' to the patent field." (352 U.S. 463, 465)

Petitioners believe that this Court did not intend to abolish or qualify the rule which requires that a patentee purge the consequences of misuse as a prerequisite to further enjoyment of the patent privilege. This belief finds support particularly in those portions of the majority opinion which recognize the analogy between the misuse inherent in the patents in suit and the enlargement of "the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones" (Op. p. 5).

Manifestly, there is no rational basis for *excluding misuse* consequent from use of the leverage of the patent to obtain *post-expiration royalties* from the purging requirement heretofore universally applied.

No reason exists for permitting Respondent, which has misused its patents by post-expiration royalty contracts, to enjoy benefits which are denied to the perpetrators of other forms of misuse. Far from attempting to purge, Respondent insists on collecting a full measure of royalties notwithstanding its misconduct. And Respondent has filed at least

eight additional lawsuits in the state courts of Washington seeking to enforce similar contracts.

3. The situation is particularly aggravated in this case because "*the period of misuse*" *began when the first patent was declared invalid in 1953.*[1] Respondent demands payment by Petitioners of that portion of the specified royalty allocable to the six patents allegedly used in Petitioners' machines but which *expired* prior to the August 13, 1957 expiration date of the youngest patent allegedly so used. Respondent insists that continuing royalty on these six expired patents must be paid at an undiminished rate until August 13, 1957, *notwithstanding the fact of expiration* of all six prior to that date. So construed, the present licenses would, of course, constitute

> ". . . royalty agreements that project beyond the expiration date of the patent" and hence would be "unlawful *per se*" (Op. p. 4).

Since the stated royalty was agreed upon as a fair rate for the entire package of the seven allegedly used patents, it is inescapable that the licenses, to be lawful, should have provided for the diminution of the royalty as the various patents expired.

This indeed was the holding of the Court of Appeals in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496 (3 Cir. 1962), cited with approval by the majority. In *Ar-Tik Systems* the court, quoting verbatim from its prior

[1] Patent 2,226,009 is not even allegedly used in Petitioners' machines. Hence the youngest patent involved is 2,211,357 issued August 13, 1940. Of the six remaining patents allegedly involved, patent 2,114,712 was held invalid in 1953; three patents Nos. 2,114,727, 2,116,006 and 2,138,529 expired in 1958; and two patents 2,187,526 and 2,193,354 expired by March 12, 1940. Hence it is self evident that the predominate consideration for the royalty payment "was spent" long prior to the August 13, 1957 expiration date of the "youngest" of the "used" patents.

decision in *American Securit Co. v. Shatterproof Glass Corp.*, 268 F. 2d 769 (3 Cir. 1959), stated:

> "We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which *provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit. . . .*" (Emphasis added) (302 F. 2d 496, 509)

It should be noted that the interpretation of the majority opinion by Respondent is inconsistent with the position of the United States as *amicus curiae*. The *amicus curiae* brief under the heading "Interest of the United States" states:

> ". . . The United States is concerned that permitting a patentee to collect royalties for use of a patent after it has expired would constitute an unwarranted extension of the limited monopoly which the patent laws permit, and, therefore, would be detrimental to our basic federal policy of free competition."

Respondent's construction of the majority opinion is but an effort to accomplish indirectly what cannot be accomplished directly. Manifestly, a package license agreement which continues a royalty at an undiminished rate notwithstanding the expiration of some of the licensed patents during the contract term is a "legal device" for the "projection of the patent monopoly after the patent expires" and is, therefore, "unenforceable."

II. Conclusion

In view of the construction placed by Respondent on the majority opinion, it is requested that this motion be granted to foreclose unnecessary proceedings in the courts below.

The requested clarification will also obviate possible controversy in other cases concerning propriety of package licenses in view of the *per se* illegality of post-expiration royalty agreements.

Finally, the clarification will be of assistance to the Tenth Circuit Court of Appeals in the disposition of the case of *Well Surveys, Inc. v. McCullough Tool Co.* in which decision has been reserved pending the disposition of this Court of this case.

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IN THE

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No. 20

WALTER C. BRULOTTE and CECILIA BRULOTTE, his wife

and

RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

PETITION FOR REHEARING

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THYS COMPANY, *Respondent*

PETITION FOR REHEARING

Respondent Thys Company respectfully petitions for a rehearing and a reconsideration of this case by this Court. That the legal questions argued and decided herein are extremely important is obvious. Aside from *Hazeltine*, this is the first decision of these important legal issues by this Court in an action to recover on a patent royalty contract.

With all due respect to the eminent author of the Court's opinion and the concurring Justices, we sincerely believe and respectfully submit that further consideration by this Court of these very important questions is extremely appropriate.

1. We earnestly request reconsideration in the light of Justice Harlan's dissenting opinion. We submit that the logic of this opinion is entirely sound and the reasoning is completely irrefutable.

2. The majority opinion (p. 1, 3) emphasizes certain restrictions in the royalty contracts and states that they "*prevent* assignment of the machines or their removal from Yakima County" either before or after the patent expirations, and that this indicates illegality. However, the language of the contracts in this respect merely is:

> "Second Party shall not assign this agreement nor any interest therein . . . nor permit said machine(s) to be removed from Yakima County . . . *without the prior written consent of First Party* (Thys). *First Party shall not unreasonably withhold such consent.*" (Ex. 1, 3, par. 20; R. 73. All emphasis herein is supplied.)

Respondent has never refused consent to do so, and no contention has ever been made that it has. Consequently these are not practical nor preventive restrictions at all. Manifestly the reason for this provision merely was so that respondent would remain informed as to the location of the machines and the identity of the persons by whom the royalties would be payable. Certainly this customary routine cautionary procedure should not rightly be held to taint the contracts in whole or in part with illegality.

3. Again the majority opinion states (p. 3) "the purchase price in each case was a flat sum, *the annual payments not being part of the purchase price* but royalties for use of the machine during that year." It is true that the contracts referred to them as royalties, but the applicable local State contract law as to these same contracts was clearly stated in *Thys v. State of Washington,* 31 Wn. 2d 739, 759, 764, 199 P. 2d 68, certiorari denied 337 U.S. 917:

"Under the circumstances here shown, the so-called "royalties," in so far as the payment of five hundred dollars a year are concerned, are, in effect, a part of the cost of the machine and of the right to use the same to the purchaser. The minimum payment of five hundred dollars a year (or some other sum) required in any event is, in effect, a payment simply for the right to use the machine and is not based upon any actual use thereof, which right, joined with ownership, results in a complete, unrsetricted title to own and use the machine. . . . .

"We hold that, under the contracts whereby respondents sold the hop-picking machines within this state, the so-called "royalties" (referring to the payments of five hundred dollars a year, regardless of the use or nonuse of the machine) are, for the purposes of the statutes of this state providing for the payment of a sales tax, *part of the selling price of the machine* and taxable as such, . . . The same is true if respondents are, within this state, engaged in business as a manufacturer, the so-called "royalties" being *a portion of the true sale price of the hop-picking machines.*"

4. Moreover in any event the rule contended for by petitioners would not be applicable under the undisputed facts of this case. It is true that 7 of the 12 Thys patents originally listed by number and issued prior to the execution of these contracts, were incorporated in these machines. However the contracts also licensed "Other Patents Pending". (Ex. 1, 3; R. 71) It is undisputed that 4 other Thys patent applications were then pending on which patents were subsequently issued. These were Ex. 22, No. 2,559,080 issued on June 3, 1952; Ex. 23, No. 2,448,063 issued on August 31, 1948; Ex. 24, No. 2,620,064 issued on December 2, 1952; and Ex. 25, No. 2,647,626 applied for January 26, 1951 and issued on August 4, 1953. In addition thereto 3 other patents on hop-picking machines and accessories and improvements thereto were

subsequently applied for and issued to respondent. These included, among others, Ex. 26, No. 2,764,163 issued on September 25, 1956. Of course *none of these subsequently issued patents has yet expired,* and all of them still remain in full force and effect. All of these subsequently issued patents were incorporated in petitioners' and other similar machines *or were readily available and suitable for that purpose as accessories, replacement parts, and improvements thereof.* (Ex. 22-26; R. 47-52, 56-64, 68, 69).

Of these patents Ex. 22 was for replacement of improved picking finger bars on these machines, which are parts which frequently require replacement. As to this, Thys' testimony is undisputed:

> "Every year there were some bars that were replaced and they were supplied as a replacement. . . . Any owner . . . could obtain these fingers and put them on the hop-picking machine. . . . Parts for hop-picking machines were for sale in the Yakima area."

Ex. 23 "is the assembly of the picking fingers. . . . It covers the shape of the fingers and they — the way that they are assembled on an angle bar which is specially built to receive the fingers and secure them." (R. 60, 61) Ex. 24:

> "Later modifications were made and it was adaptable to a portable machine". (R. 62)

Thys testified that Ex. 25:

> "Is especially designed to remove stems from hops after all other cleaning operations have been accomplished, it removes the stems, and it is applicable to a portable machine, and it was made available to the users of all of the portable hop-picking machines. . . . It is incorporated in the portable machine . . . . It is an improvement. . . . It produces cleaner hops by removing the last stems. . . . It is readily practicable to add these features to these machines." (R. 62, 63)

With reference to these subsequent patents and the petitioners' machines, *"they could have been incorporated and they probably were."* (R. 69) Admittedly neither petitioner testified to the contrary.

5. The majority opinion (p. 3) apparently recognizes that unpatented machines may be lawfully sold "on long term payments based on a deferred purchase price or on use". However, an unpatented machine is in the public domain for precisely the same reason as is a machine covered by an expired patent, namely that neither one is presently covered by an existing patent, and each is therefore in the public domain.

As stated by this Court in *Sears Roebuck and Co. v. Stiffel Co.*, 376 U. S. 225:

> "An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."

We therefore submit that the same rule of legality should apply to a contract providing for payment for the right to use a machine covered by an expired patent, especially when previously entered into, as is applied to an unpatented machine.

6. The majority opinion states (p. 4) that this Court's leading decision in *Automatic Radio Co. v. Hazeltine*, 339 U. S. 827, that that contract providing for royalties "based on the licensee's sales, *even when no patents were used*" was lawful as "a convenient and reasonable device" — a decision which at all times thereafter has been uniformly relied upon by the patent licensing profession — is not in point (1) because "the royalties claimed were not for a period when *all of them* had expired." However as we have seen, the situation in this respect in this case was precisely the same. When these contracts terminated, several of these Thys patents *had not yet expired*.

A second asserted distinction is that *Hazeltine* "exacted

royalties *for patents never used. . . .* The present licensees *are farmers using the machines.*" However petitioner Charvet admitted that *he never used this machine at all during any of the years* in question, namely 1953 through 1960. He testified "*the last time that machine was used to harvest hops . . . was the fall of 1952* in September." (R. 35) Admittedly neither petitioner paid any royalties for any year subsequent to 1952. This of course was long prior to the expiration of most of these patents. During several of these years Charvet ceased raising hops and during the other years he deliberately hired a competitive stationary machine. (R. 33-36)

Certainly therefore if as held by this Court it was lawful for Hazeltine to collect "royalties for patents never used", namely for the right to use the same, the same should be lawful for Thys.

Under paragraph 8 of these contracts the $500.00 annual minimum royalty was payable "*in any event*" entirely irrespective of the extent of use and irrespective of whether or not the machine was used at all. (Ex. 1, 3, R. 71)

7. Furthermore in any event even if this Court were to adhere to its decision that royalties based on the extent of use subsequent to patent expirations should be to that extent "unenforceable", we earnestly urge that this should not be applicable to $500 minimum royalties accruing during the post-expiration period, because as hereinabove shown, use, nonuse, or the extent of use has nothing whatever to do with the obligation to pay these minimum royalties. And Thys recovered nothing whatever in excess of the said minimum royalties for any year subsequent to 1956 when numerous Thys patents were still in effect. (R. 97-104) Consequently irrespective of the rule of this Court for future guidance, the judgments against petitioners herein are not erroneous and should be affirmed.

As admirably and cogently stated by Justice Harlan (p. 4):

"Furthermore, since the judgments against petitioners were based almost entirely on defaults in paying the \$500 minimums and not on failures to pay for above-minimum use, any such distinction of extended use payments and extended installments, even if accepted, *would not justify eradicating all petitioners' obligations beyond the patent term, but only those based on use above the stated minimums; for the minimums by themselves, being payable whether or not a machine has been used, are precisely identical in substantive economic effect to flat installments.*"

8. Thys has never had a monopoly of hop-picking machines. This Court has not found any antitrust law violation. Thys has never interfered with the use of any patented invention when in the public domain subsequent to patent expiration. Thys has not unlawfully extended its "monopoly" after patent expirations. Respondent has merely sought enforcement of contracts voluntarily entered into by competent parties, without coercion and with full knowledge of the facts, long before expiration of any of the patents, which spread the agreed compensation of the inventor over a reasonable and convenient period of years extending past the expiration dates of some of the patents. Freedom of contract in this respect is for the public interest and for the benefit of small farmers who need assistance in financing their mechanization.

The "continuation of the patent monopoly" after patent expiration which was condemned in *Scott Paper Co. v. Marcalus Co.*, 326 U. S. 249, 256, a patent injunction suit, related to an actual interference by injunction with the use of the patented invention thereafter. The holding there was that the patent laws do not permit anyone to "*withhold from the public the use of an invention*" in the public domain. However there has been no such attempted interference, injunction or withholding by Thys.

Since an agreement for \$8,500 total royalty payable \$500 per year for 17 years, or an agreed royalty base including

sales of unpatented and expired patented articles, would certainly be lawful, we submit that in essence this arrangement was substantially the same and should be likewise lawful. The contracts are presumed to be lawful and should be so construed if reasonably possible. In essence this is voluntarily agreed partially deferred compensation for benefits previously received, such as retirement pensions, namely for the use or right to use patented inventions during the terms of the patents, and certainly this should be lawful.

Here there was no agreement not to use an expired patent invention. There was merely an agreement to pay money in a manner that was not an excessive financial burden, as compensation for previous benefits. Thys was not attempting to burden or control any post-expiration activities, but was merely establishing a voluntary fair method of receiving the inventor's reward. If it is lawful to agree to make lump sum payments spread over this period, it should certainly be lawful to have a voluntary sliding scale based upon extent of use of the apparatus in order that the licensee may make the payments out of proceeds and benefits from its use. This is actually for the benefit of the licensee and is certainly not against public policy.

We therefore again respectfully urge that since this was lawful for Hazeltine in 1950, it should be lawful for Thys in 1964.

PETITION FOR CLARIFICATION

9. In any event if these judgments be not affirmed, we respectfully request and petition for a clarification of this Court's decision.

The majority opinion stated (p. 2) its final and ultimate conclusion of the case as follows:

"We conclude that the judgment below must be reversed *INSOFAR AS* it allows royalties to be collected

which accrued after the last of the patents incorporated into the machines had expired."

The Court's closing conclusion (p. 5) was:

"The exaction of royalties for use of a machine after the patent has expired is an assertion of monopoly power in the post-expiration period when, as we have seen, the patent has entered the public domain. We share the views of the Court of Appeals in *Ar-tik Systems, Inc. v. Dairy Queen, Inc.*, 302 F. 2d 496, 510, that after expiration of the last of the patents incorporated in the machines "the grant of patent monopoly was spent" and that *an attempt to project it* into another term by continuation of the licensing agreement *is unenforceable.*"

As hereinabove stated we submit that where as in this case royalties are agreed to be payable *for the right to use* certain patented inventions, including subsequent improvements, replacement parts, accessories, and additions to the machines, the right to collect should not terminate in any event prior to the expiration of the last of the patents, irrespective of whether or not they were actually used and incorporated into the machines.

In any event frankly this seems to us quite clear and definite that "*insofar as*" *means* "*insofar as*", and consequently, by clear implication at least, Thys *is entitled to recover* all royalties *which accrued prior* to the expiration of the last of the patents.

The majority decision held respondent's claim was "unenforceable" in so far as post-expiration royalties accrued. Nowhere, however, did this decision hold, (as contended by petitioners) that there was such a flagrant misuse of patents by Thys as to invoke the doctrine of "unclean hands" and preclude recovery of any royalties whatever on these contracts in this action at law, which is not an equity injunction suit. And clearly such a holding would be completely erroneous, inequitable and unjust.

We are informed, however, that petitioners refuse to accept this supposedly clear interpretation of the decision. Frankly we would dislike very much to have them bring us to this Court again for further enlightenment on that very important phase of the case. We therefore urge that if further light for their eyes be needed, "let there be light" here and now.

Consequently for the foregoing reasons respondent respectfully petitions for a rehearing and reconsideration of this case by this Court, or in any event for a clarification of the decision in the respect hereinabove stated.

Respectfully submitted,

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Attorneys for Respondent

CERTIFICATE

I, ELWOOD HUTCHESON, one of the attorneys for respondent, hereby certify that the foregoing Petition for Rehearing is presented in good faith and not for delay.

ELWOOD HUTCHESON